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Nation's Business Contents

January 1999
VOL. 87, NO. 1

FINANCE

24 Small Business Financial Adviser

Insurance via payroll deduction; Europe's new currency; travel coverage; 401(k) strategies.

31 Growth Factors

Finding Capital: Selling accounts receivable to factors can generate cash for expansion.

44 Tips For Collecting Payments Due

Put payment terms in writing, be persistent, and—if all else fails—consider going to court.

MANAGING

28 Leadership Skills That Succeed

The crucial pathways to employees' respect are communication, accountability, and trust.

WHERE I STAND

49 The Economy

Express your views on changing conditions and how they may affect your company.

POLL RESULTS

49 Congress

Lawmakers didn't work hard enough on core issues in 1997-98, said most respondents to the November poll.

Small Business Outlook For 1999

COVER STORY

16 Slower Growth, Cautious Optimism

Although the U.S. economy is generally on solid ground, an uneasiness about the year ahead underlies the national psyche.

- The Outlook By Region
- When Alan Greenspan Speaks ...

MANAGING

41 SCORE's Impact

Retired executives' expert counseling, often online, helps start-ups.

TECHNOLOGY

33 Accounting Software

Number-crunching products for small firms' needs—from basic to advanced.

38 A Digital Focus

Photo technology helps small firms create powerful marketing presentations inexpensively.

BOOK REVIEW

47 Economic Sanctions' Costly Backlash

An in-depth analysis of how U.S. steps against other nations can cause economic harm at home.

FRANCHISING

50 Fresh Ideas From Young Guns

A special report on the dynamic new generation of entrepreneurs who are charting their way to franchising success outside the industry's traditional mold.



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Page 66

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DEPARTMENTS

8 Letters

10 Entrepreneur's Notebook

By being mindful of the common mistakes that sometimes ensnare a small company, you can help keep your firm alive and well.

12 Dateline: Washington

Leadership changes in key House committees; the rising costs of regulating; a commuting benefit for employees; an IRS deadline delayed.

13 Managing Your Small Business

Devising a strategy for growth; focusing on results; underscoring the need for safe driving.

When time runs out on your debtors, take sure, swift action to collect the money you're owed.

Page 44

"Be clear about your vision and very articulate in getting it across to people you want to go with you," says leadership expert and author Michael Useem of the University of Pennsylvania's Wharton School.

Page 28

56 Family Business

A checklist of resolutions for the new year and beyond; considering family members for the board.

59 Free-Spirited Enterprise

Doughnuts, doggie bags, and the popular restaurant guide that gives eateries their just deserts.

66 Making It

Back to the future; a juicy line of work; going for the records in health administration.

70 Classified Ads

72 Editorial

Change—and stability—on Capitol Hill.



PHOTO: © STEPHEN ALVAREZ

Diversification fuels the growth of Carolyn Jones' records-management company.

Page 69



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A Provocative Year Ahead

Dear Reader:

As the new chief executive officer of *Nation's Business*, I would like to welcome you to our first issue in 1999—our 87th year of serving our readers.

This promises to be a provocative and challenging year. In an atmosphere sullied by the Clinton impeachment hearings, Congress will face major issues important to business and the nation, including the future of Social Security. Business and the country will likely have to weather an economic slowdown, which we discuss in our cover story, "Small Business Outlook For 1999," beginning on Page 16.

Will there be a recession? Will the stock market break 10,000? Will the cost of labor continue to increase three times as fast as the cost of living? What will the disruptions in the economies of China, Brazil, and Russia mean on the Main Streets of America? These are just some of the questions *Nation's Business* will answer beginning with this issue.

This magazine has but one purpose: to help you and your business succeed. Every issue we publish in 1999 will reflect this mission and contain articles you can't afford to miss. Our focus will be on providing you with the information, analysis, and advice you need. As the words on our masthead say, we are "The Small Business Adviser."



PHOTO: T. MICHAEL KEZA



I want to remind you that Jan. 30 is the deadline for applications for the annual Blue Chip Enterprise Initiative, which honors small businesses that have overcome major obstacles and emerged stronger. The program is sponsored by Massachusetts Mutual Life Insurance Co., known as MassMutual—the Blue Chip Company; *Nation's Business*; and the U.S. Chamber of Commerce. I strongly urge qualified small companies to apply. For details, see the ad on Pages 36 and 37.

Please remember that communication is a two-way street, and I look forward to hearing from you either via letter, addressed to me at 1615 H Street, N.W., Washington, D.C. 20062-2000, or via e-mail at bperkins@nbmag.com.

Here's to a profitable, successful, and joyous new year.

Thank you for reading.

Robert J. Perkins
Chief Executive Officer

Nation's Business



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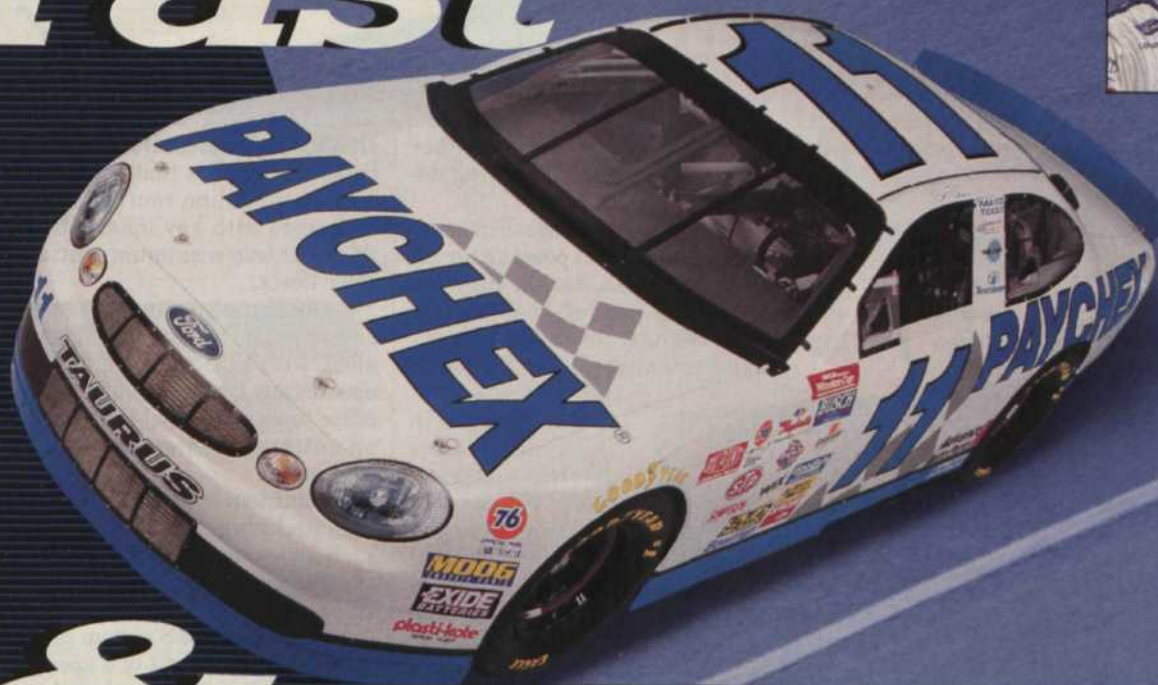
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Letters

Seeking Accountability On Charges By Banks

 I enjoyed reading "Sizing Up The Megabanks" [Cover Story, November], yet I feel the article left out a very important factor in doing business with a large or medium-sized bank.


Banks in recent years have resorted to what I would define as legal bank robbery. They call it "bank analysis charges," and simply put, it means that the bank decides how much to charge your account for each check you write or deposit and for mailing you your monthly bank statements and other information.

Unless you maintain a large balance—which any account that borrows money from the bank can't afford to do—the bank can charge any amount without any reasonable explanation of how it arrived at that amount.

I think the time has come for our representatives in Washington to stop listening to the bank lobbyists who are trying to block the government from investigating this problem—a problem that is doing serious harm to small and midsize businesses.

Jack G. Klein
Suffern, N.Y.

EPA Should Base Decisions On Science, Not Ideology

 "The EPA's New Reach" [Cover Story, October] described an example of how an ideology can replace common sense and science.

The Environmental Protection Agency program that the article discussed would more appropriately be called "environmental injustice." EPA Administrator Carol Browner is following in the footsteps of Anne Gorsuch Burford, the EPA's administrator from 1981 to 1983,

who also tried to rely on ideology rather than scientific evidence in reaching decisions.

If siting an industrial or waste-disposal facility at a certain location poses an unreasonable risk to human health, Browner should so indicate, publish the scientific basis for the assertion, and subject the underlying science to an independent peer review.


More people in the United States die from causes related to poverty than from exposure to environmental pollutants. There is ample evidence suggesting that the detrimental effects of poverty are equivalent to those from exposure to the most toxic pollutants. By opposing the siting of plants in areas where poverty is prevalent, the EPA contributes to the continuation of poverty.

Environmental protection and economic development are not contradictory. There is a reasonably well-established scientific process by which the impact of both on human health can be assessed.

If Browner's objective is to protect human health, she would be well-advised to look at the impact of poverty on human health. She also would be well-advised to use existing competencies within the EPA to justify the agency's determinations of the effects on human health of siting plants in specific locations.

A. Alan Moghissi
Chairman
American Council on Science
and Health
New York City

A Sophisticated System For Managing Fleets

 "Getting There Via Computer" [October] described software that business fleet managers can use to

simplify deliveries. Businesses also can benefit from tools that track fleet movement, streamline routing, and provide managers with key information to help them achieve maximum efficiency from their fleets.

A global-positioning-system (GPS) receiver installed in each fleet vehicle, along with software such as that developed by my company, enable the central office to view the real-time movement of an entire fleet on computer screens or wall maps.

In addition, specialized programs provide archiving and analysis of factors such as average speed traveled, number of stops made, and the duration of those stops.

An intelligent GPS system can sound an alert if a truck is out of a specified area, thus providing information about unauthorized use or theft.


Businesses also can create electronic logs of vehicle movement and determine if the fleet is being used to maximum advantage.



One of my company's clients, a plumbing-repair company, learned in its first month of using the system that one of its trucks stopped for two hours daily at a particular bar and grill that was not among its customers. Management was then able to make decisions about better ways to use that truck.

Other drivers appreciated the increased efficiency of dispatch that resulted from the GPS system, which allowed them to make more repair stops and thus earn more money.

Kent Phelps
Vice President of Software Engineering
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Conifer, Colo.

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ENTREPRENEUR'S NOTEBOOK

By Frederick J. Beste III

Avoiding The Traps Set For Small Firms

Not long ago, a successful entrepreneur was crying on my shoulder about his partner in what was a profitable, growing business. I didn't see the problem until he said his partner—a 50-50 co-owner—no longer invested the same level of personal energy, commitment, and risk-taking that he did when the company started, even though the business, with solid planning, would have had the potential to double or triple its revenues.

As I reflected on the entrepreneur's problem, it occurred to me that this was the 10th time in my career that I had heard a tale of woe about a 50-50 partnership.

Why, I wondered, do otherwise intelligent people keep making this mistake? The answer is simple: They have never been there before. "Equal partners" sounds so fair that people starting a business convince themselves that issues such as who will have the ultimate say can be worked out later if necessary.

As an entrepreneur who, for much of my career, has sought out other entrepreneurs to invest in through my venture-capital firm, Mid-Atlantic Venture Funds, I have identified roughly two dozen "entrepreneurial death traps" that catch and destroy many small companies.

Some, like the 50-50 partnership dilemma, are easily avoidable. (Always remember that someone must be given the power to stop the buck from being passed.) Other traps are more insidious because you probably aren't looking for them and you may not realize that they have you in their grip until it's too late. Here are four such traps:

Expecting your product to sell itself. Let's say you've created a gee-whiz prototype that runs circles around the competition yet you wonder why the world isn't beating a path to your door.

Frederick J. Beste III is CEO of the general partners of Mid-Atlantic Venture Funds, which has offices in Bethlehem, Pa., and Reston, Va. He prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.



PHOTO: GERALD DIMARCO JR.—BLACK STAR

"Death traps" such as inadequate marketing can ruin small firms, says Frederick J. Beste III of Mid-Atlantic Venture Funds.

Successful commercialization of any product is every bit as difficult as developing the product itself. Make sure that at least one key member of your team has the talent and expertise to take your better mousetrap to market, even if it means hiring someone specifically for that purpose and giving him or her the power to do the job.

Inadequate pricing. It's tempting to say, "We're going to have the best product at the lowest price." But there's no strategy more likely to fail, especially for newcomers.

Be sure to price your product or service according to the market. If your product or service is truly better, define its superior benefits and price it accordingly. Doing anything less sends the wrong message to consumers.

Emotional litigation. It's easy to understand why entrepreneurs feel the need

to defend a company's honor or position, and in certain circumstances litigation should be pursued. In most cases, though, emotion wins out over common sense and entrepreneurs get bogged down in expensive, draining, and distracting legal action.

Before bringing a lawsuit, talk to peers who have gone through one. You might decide that you would be better served by biting your tongue, settling out of court, and getting on with business.

Failing to admit a mistake. One of the hardest-to-recognize traps is a psychological one, and it's often accompanied by this type of thinking: "We have too much invested to walk away from it now."

For all kinds of reasons—fear or ego, for instance—it's tough to make objective calls about your own mistakes. Still, to survive and prosper, entrepreneurs must learn to acknowledge their blunders and move on rather than continue to put energy and resources into something that isn't working.

The appropriate question to ask about a project that is failing is: "Would we invest the needed funds today if this project was presented as a fresh opportunity?" Let the honest answer to that be your guide.

Remember, you can't succeed if you don't avoid failure. The basic nature of most entrepreneurs is to focus on offense, but even in building a business, defense is critical. If you look out for and avoid "death traps," you will increase your chances of winning the game. **NB**

WHAT I LEARNED

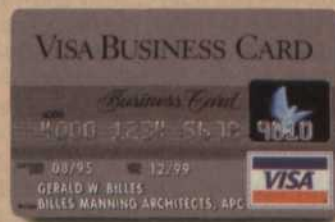
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Dateline: Washington

Business news in brief from the nation's capital.

By James Worsham

CONGRESS

Chairmanship Changes On Key Committees

The incoming Congress will have new leadership in important House and Senate committees as a result of retirements, election losses on Nov. 3, and the Republican leadership changes.

Here are the new chairmen of some committees important to small business:

■ Phil Gramm, R-Texas, will replace Alfonse D'Amato, R-N.Y., as chairman of the Senate Banking, Housing, and Urban Affairs Committee. D'Amato lost a bid for a fourth term to Democrat Charles Schumer, who served nine terms in the House.

■ John Warner, R-Va., will succeed Strom Thurmond, R-S.C., as chairman of the Senate Armed Services Committee. Thurmond, 96, is relinquishing the chairmanship but will remain on the panel.

■ C.W. Bill Young, R-Fla., will become chairman of the House Appropriations Committee, replacing Bob Livingston, R-La., who was elected by Republicans as the new House speaker. Livingston will succeed Newt Gingrich, R-Ga., who is resigning from Congress.

■ Larry Combest, R-Texas, will become chairman of the House Agriculture Committee following the retirement of Robert F. Smith, R-Ore.

■ David Dreier, R-Calif., will succeed retiring Gerald B.H. Solomon, R-N.Y., as chairman of the House Rules Committee, which decides which bills go to the House floor and sets the terms of debate.

REGULATION

Federal Regulatory Costs, Staffing At Record Highs

The federal government will spend a record \$18 billion and employ nearly 128,000 workers in 61 agencies to regulate the workplace during fiscal 1999, which began Oct. 1, according to a report from Washington University in St. Louis.

The university's Center for the Study of American Business says that about 80

percent of the regulatory outlays will be made by agencies involved in "social regulation," which includes environmental cleanup, workplace safety, and consumer protection. (See the chart.)

The remaining 20 percent, for "economic regulation," goes to agencies that oversee market practices, rate-setting, and competition in industries such as financial services, telecommunications, and energy production.

Growing Federal Spending For Regulation Of Health, Safety, And The Environment

(In Millions Of 1992 Dollars)

	1960	1970	1980	1990	1999*
Consumer Safety And Health	\$1,073	\$2,320	\$3,889	\$4,054	\$5,447
Job Safety And Working Conditions	150	418	1,247	1,071	1,175
Pollution Control And Species Protection	90	699	2,733	4,449	5,228
Nuclear Facilities	52	209	911	494	441
TOTALS	\$1,365	\$3,646	\$8,780	\$10,068	\$12,291

*Estimated

SOURCES: CENTER FOR THE STUDY OF AMERICAN BUSINESS; U.S. OFFICE OF MANAGEMENT AND BUDGET

TAXES

Employers And Employees Can Save With New Commuting Benefit

Employers can offer transit and van-pool expense benefits to workers in the form of a pretax spending account under a change in the federal tax code effective Jan. 1.

Employees will not have to pay taxes on amounts diverted or contributed to their spending accounts, and employers will save by not having to remit payroll taxes on the amounts their employees set aside.

Previously, these commuting benefits could be offered only in addition to compensation as a benefit that would be tax-free to the employee.

Under the change, included in the high-

way bill signed into law in June, employees can divert up to \$65 of their pretax income per month to a transportation-spending account.

The \$65 limit will be boosted to \$100 a month in 2002 and then will be indexed to inflation.

The action gives employees who use public transportation or van pools the same tax benefits that a 1997 tax law provided for employees with parking expenses. The limit for parking expenses is \$175 a month.

Either of the benefits can be structured so that part is contributed by the employee in pre-tax dollars and part is contributed as additional tax-free compensation by the employer.

IRS Extends Deadline For Electronic Filing

The Internal Revenue Service has again pushed back the deadline for small businesses to begin electronic filing of their federal tax deposits. The new deadline—a six-month extension—is June 30. It applies to businesses with \$50,000 or more per year in federal employment and other tax deposits. Under the extension, the IRS will not penalize firms that continue to use paper coupons for making tax payments. The electronic-filing deadline, originally July 1, 1997, has been extended several times in the face of business opposition.

Managing Your Small Business

Devising a strategy for growth; focusing on results; underscoring the need for safe driving.

PLANNING

You're Never Too Small To Think Strategically

Philip Burns spent 15 years working for a giant computer company, primarily as the strategic planner for its plants in Europe. Now that he and his wife, Linda, own a three-employee company in Cuttingsville, Vt., he still thinks strategically, in a way that other small firms might want to emulate.

Even though his business, Vermont Industries Wrought Iron, is tiny—its 1998 revenues were expected to be around \$550,000—Burns has pursued growth with a strategy that interlocks all three critical elements for a small business' success: customers, vendors, and employees.

Here's how the strategy works:

Customers: Expanding a retail customer base for Vermont Industries' lamps, candleholders, and pot racks was difficult from the firm's out-of-the-way location. Early in 1997, the Burnses began wholesaling to gift shops, sharing the services of about 60 sales representatives across the country.

Wholesale now accounts for about one-third of the company's revenues, and Burns believes it will grow to equal or surpass retail sales in three or four years.

Vendors: When the Burnses bought their company in 1993, it was a retail store selling only lamps. They added other kinds of wrought-iron accessories, and, when they decided to get into wholesaling, they began buying from foreign manufacturers at international trade shows.

The foreign suppliers' prices were low enough to allow for a substantial markup. Vermont Industries now offers wrought iron from Poland, India, Britain, and other countries.

Employees: The Burnses have given each employee a direct stake in the success of the company's products. "Each employee is responsible for a number of vendors," Burns says, and each must "figure out what to order and how much inventory to carry."

Vermont Industries' computers can measure the profitability of each vendor from year to year, Burns says, "and we give [the



PHOTO: SALAN JARUBEK

A business approach that links three elements—customers, vendors, and employees—has helped Philip and Linda Burns forge success at their company, Vermont Industries Wrought Iron.

employees] 25 percent of whatever increase in profit occurs. They have a great deal of responsibility."

In 1997, the company's first year of wholesaling, revenues shot up by more than 20 percent. The pace slowed in 1998,

but Burns expected Vermont Industries to finish the year with a 10 percent increase.

"It's absolutely vital," he says of his three-pronged strategy. "That's what makes the business work."

—Michael Barrier

PRODUCTIVITY

Put Emphasis On Results Before And After Hiring

Don't depend on your employees—depend on the results they can achieve, says Seth Lederman, owner of Bridge the Gap, a consulting firm in New York City.

When hiring, Lederman says, employers should seek out good people, make clear the company's expectations regarding their performance, and insist that they meet those expectations.

To make such an approach work—and to avoid causing employees to live in fear that they won't be retained—managers must explain the company's vision to existing and prospective workers. Outline the results needed to make that vision a reality, Leder-

man urges, and "motivate your employees by making them feel like important contributors to the company's success."

Top managers should "develop a strong strategic objective" before establishing or revising the job hierarchy, says Lederman, and they should envision the company's ideal structure rather than fit the structure to the people already in the firm.

That said, training is still vital for enabling workers to meet their responsibilities, says Lederman, who founded a health-care firm that reached \$4 million in annual revenues before he left and established Bridge the Gap.

—Steve Bates

The author is a business writer in Washington, D.C.

THE WORKPLACE

Driving-Safety Programs Can Cut Employers' Costs

Think you've done all you can to minimize your expenses for health care and other employee benefits? Your company might have some "invisible" costs that can be identified and reduced, suggests Dr. Ricardo Martinez, administrator of the National Highway Traffic Safety Administration (NHTSA).

For example, Martinez says, some employers can save substantially on premiums for health, disability, property-damage, and liability insurance by requiring employees to wear seat belts when driving on company time—and by urging them and their families to use seat belts when riding at any time.

Moreover, he notes, seat-belt use can reduce the severity of injuries and the length of absence from work for employees who are hurt in a car accident.

Motor-vehicle accidents are the leading cause of work-related deaths in the United States, and nonfatal accidents with serious injuries can lead to years of high costs for a company. Car accidents cost employers about \$50 billion a year.

Many injuries could be prevented, however, if employers educated their employees about driving safety and required them to use seat belts, Martinez told *Nation's Business*.

Some accident-related costs are "invisible," he says—meaning they are spread around in various parts of a company's budget, affecting expenses such as health-care premiums and the costs of replacing injured or disabled workers. "It's in so many disparate



PHOTO: T. MICHAEL KEZA

Encouraging use of seat belts can help employers save money, says Dr. Ricardo Martinez, head of the National Highway Traffic Safety Administration.

RECRUITING

Look Beyond The Borders To Find The Best Workers

Companies increasingly are recruiting beyond state boundaries—and beyond national borders as well—as they try to fill crucial job openings.

Although use of the Internet as a recruitment tool is growing rapidly, some relatively low-tech methods for finding distant workers are still available.

John A. Challenger, executive vice president of Challenger, Gray & Christman, a Chicago-based outplacement firm that follows workplace trends, says word of mouth and referrals from recent hires still can help significantly. For example, he says, if your firm recently hired someone from another country, ask the worker to recommend a friend, relative, or acquaintance from his or her homeland.

Another recruiting tactic is to put advertisements in publications targeted at specific populations. For example, Challenger

says, there are at least two U.S.-based publications that are aimed at natives of India and are well-read in this country and abroad.

Ads in overseas papers also can turn up prospects.

College and university alumni networks can be rich sources of potential workers, Challenger notes, and some of those networks reach around the globe.

Even computer-phobic managers can take advantage of Internet recruiting tools with a little help, Challenger says. He recommends World Wide Web sites such as the Online Career Center (www.occ.com), Monster Board (www.monster.com), and CareerPath (www.careerpath.com).

(For more information and suggestions on attracting and retaining employees, see "Smart Tactics For Finding Workers," January 1998; "Building Better Workers," June; and "Finding And Keeping Entry-Level Workers," November.)

—Steve Bates

pots," Martinez says. "You have to connect the dots to see the picture."

But when executives realize how much vehicle accidents really cost, they usually take steps to reduce them. Some ways to curb such expenses are relatively simple. One is to carefully screen candidates for jobs that include driving—such as delivery and sales positions—and to obtain copies of their driving records. Another way is to train drivers—teaching a truck driver, for example, how to back up in a loading bay.

Lending or giving child-safety seats to workers with young children and teaching employees the proper way to use the seats "creates a very positive bond between [the employer] and the employee and the employee's family," says Martinez.

Most of a company's costs from motor-vehicle accidents stem from accidents involving employees or their family members outside of work, so it's crucial to instill in the whole family the need to use safety restraints, adds Martinez. He notes that U.S. companies pay an average of \$22,000 for a car accident. But that figure is nearly doubled when there is an injury, which often results from or is worsened by not wearing a seat belt.

"A lot of smaller companies don't have a history of accidents" and don't anticipate all the costs of a serious one, says Martinez. "When they get one, it's absolutely devastating. ... We've seen case after case where a major motor-vehicle injury—not a fatality but with a long-term injury—can just wipe out a business."

The NHTSA provides help for businesses, communities, and states that want to establish programs to educate drivers about safety. The agency's World Wide Web site is at www.nhtsa.dot.gov.

—Steve Bates

NB TIP

Blue Chip Deadline Near

Jan. 29 is the deadline for small businesses to submit applications for the 1999 Blue Chip Enterprise Initiative, sponsored by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, and *Nation's Business*.

The initiative recognizes companies that have demonstrated strength and viability by their approach to significant challenges.

Any company that has been in business at least three years and employs from five to 400 people is eligible.

Additional information and applications are available on the Internet at www.nbmag.com/baward.htm or by calling 1-800-FOR-BCEI (1-800-367-2234).

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Age	10 YEAR	15 YEAR	20 YEAR	25 YEAR	30 YEAR
35	\$ 120	\$ 135	\$ 165	\$ 235	\$ 235
40	\$ 153	\$ 188	\$ 200	\$ 298	\$ 300
45	\$ 200	\$ 210	\$ 265	\$ 400	\$ 415
50	\$ 260	\$ 313	\$ 400	\$ 578	\$ 608
55	\$ 385	\$ 440	\$ 600	\$ 956	\$ 1,065
60	\$ 535	\$ 690	\$ 865	\$ 3,140	\$ 3,140
65	\$ 883	\$ 1,015	\$ 1,733	\$ 4,100	\$ 4,100
70	\$ 1,430	\$ 1,637	\$ 3,035	\$ 5,270	\$ 7,220
75	\$ 2,797	\$ 4,770	\$ 6,560	\$ 10,370	\$ 10,370

Age	10 YEAR	15 YEAR	20 YEAR	25 YEAR	30 YEAR
35	\$ 138	\$ 163	\$ 198	\$ 280	\$ 300
40	\$ 185	\$ 210	\$ 260	\$ 385	\$ 383
45	\$ 260	\$ 335	\$ 395	\$ 548	\$ 585
50	\$ 378	\$ 500	\$ 600	\$ 863	\$ 915
55	\$ 568	\$ 758	\$ 865	\$ 1,805	\$ 2,810
60	\$ 908	\$ 1,130	\$ 1,365	\$ 4,100	\$ 4,100
65	\$ 1,530	\$ 1,845	\$ 2,923	\$ 5,270	\$ 5,270
70	\$ 2,665	\$ 3,539	\$ 5,405	\$ 7,370	\$ 10,070
75	\$ 4,415	\$ 7,848	\$ 9,650	\$ 13,640	\$ 13,640

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Small Business Outlook For '99

Although the U.S. economy is generally on solid ground, an uneasiness about the year ahead underlies the national psyche.



In the St. Louis area, financial planner Carolyn Cash, above, says small firms that don't rely too much on exporting are holding up well. But Multiplex Co., Inc., Chairman J.W. Kisling—at right with employee Paula Reich—says his beverage-dispenser firm has been hurt by economic woes overseas.

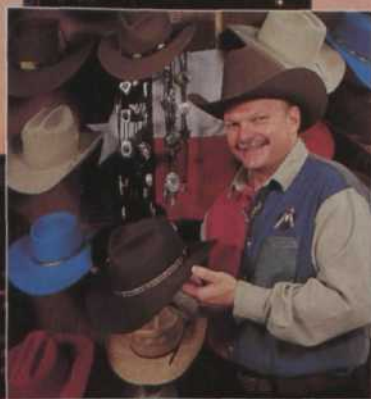


By James Worsham

Just as St. Louis Cardinals slugger Mark McGwire made ballparks smaller last summer with his march to the home-run record, the new, fast-paced global economy has made the world smaller.

McGwire electrified baseball by demolishing the season home-run record and setting 70 as the new mark—and by launching rockets to places in Busch Stadium and other ballparks where balls had never landed before. He even boosted baseball's impact on the St. Louis economy by about \$60 million.

At the same time, the economic tremors out of Asia and Latin America rippled across the United States and into manufacturing centers such as



A recession might actually help business for Western-wear-accessories marketer Double EE Brands, says owner Stewart Dahlberg. The director of international sales for Allied Gear & Machine Co., Ernest Stokes—at far right with assembler John Hall—says a lack of sales in the Far East has been offset by expanded markets in Europe.



COVER STORY

St. Louis, signaling that even the strong U.S. economy has only limited protection from the volatility of economic events far away.

As a result, in St. Louis—which now has a technology base to cushion the effects of downturns in its traditional manufacturing industries—as in other parts of the country, expectations for 1999 are mixed. Many business owners and economists voice concern about the nation's economy while they also express guarded optimism that financial crises overseas won't necessarily end the eight-year U.S. economic expansion, the second-longest in history.

"My sense here on Main Street in the Midwest is that the economy still feels pretty solid," says Joel Prakken, chairman of St. Louis-based Macroeconomic Advisers, an economic-forecasting firm. But he says the Asian crisis has pushed down farm and food prices and has dented the sales and profits of export-dependent manufacturers.

J.W. Kisling, chairman of Multiplex Co., Inc., a manufacturer of beverage dispensers for the food-service industry, is among those whose businesses have been affected by distant nations' economic contractions, which have hurt sales of his equipment and dampened his hopes. "There's a lot of apprehension out here,

and people don't see that it's going to go away any time soon," says Kisling, whose firm is in suburban Ballwin. "The outlook is not very bright."

On the other hand, Carolyn Cash, owner of the Cash Financial Group, a small financial-planning firm in suburban Chesterfield, says most small companies are holding up well, especially if their revenues are not overly dependent on exporting. Small companies, she says, don't appear to be "as panicked as big firms that have a lot of overhead."

A small firm that has been buffeted by market turmoil overseas, however, is Double EE Brands in Wentzville, Mo., about 25 miles west of St. Louis. Double EE markets Western-wear accessories such as

hats and bolo ties, and the economic slowdowns in the firm's export markets have cut its sales in half.

"The business we lost, we lost because of general economic conditions more than anything else," says owner Stewart Dahlberg. Nonetheless, he adds, customers "are coming back now, which is nice to see."

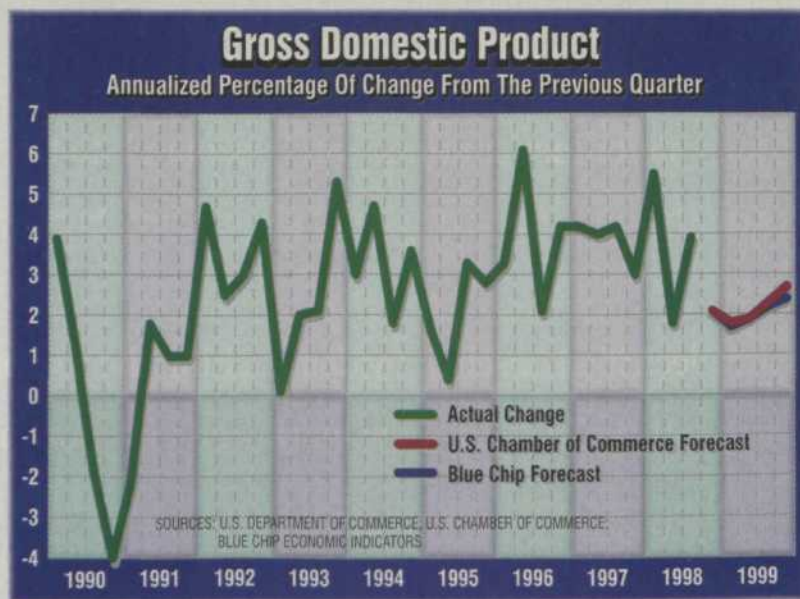
Overall, the U.S. economy is strong. It has been growing slowly but steadily, and it remained vigorous in the July-September quarter. Inflation and unemployment are

low. Job creation is continuing, there are no overly large business inventories, and there is no 1980s-style surplus of commercial real estate. Wall Street has bounced back from its autumn plunge. The federal budget has a surplus. And the Federal Reserve Board lowered interest rates to stimulate growth.

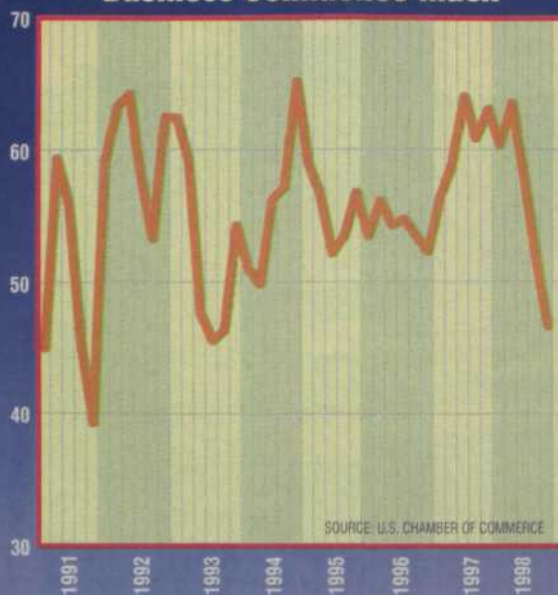
"It's the best economy we've seen in a generation," says David Wyss, chief economist for Standard & Poor's DRI, an economic-forecasting and consulting company in Lexington, Mass. "If you can't make profits now, you've got real problems."

Yet there is uneasiness.

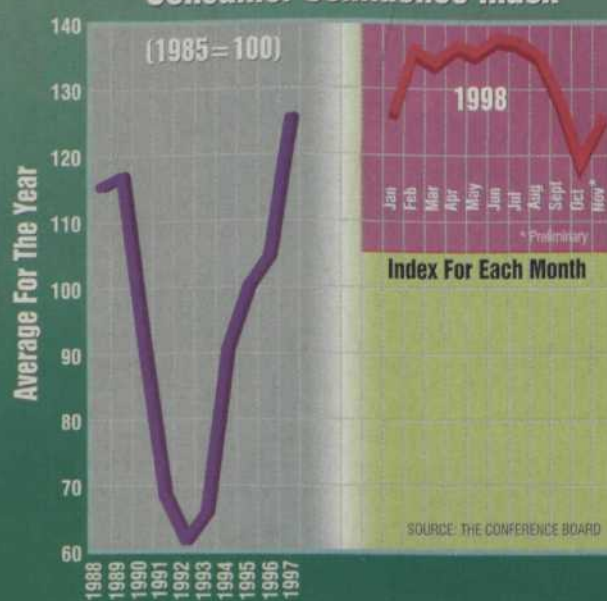
Exports have plunged, and imports are squeezing businesses' profits. Layoffs in manufacturing industries increased at year's end and could break the record for



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COVER STORY

the decade set in 1993. Consumer confidence, still high by historical standards, is off from last spring's all-time high. And there is concern about how the year 2000 computer problem could affect not only the U.S. economy but also the global economy.

"The economic performance of the United States in the past five years has in certain respects been unprecedented," said Federal Reserve Board Chairman Alan Greenspan in a September speech. But he also expressed caution: "It is just not credible that the United States can remain an oasis of prosperity unaffected by a world that is experiencing greatly increased stress."

Most economists are forecasting slower growth in 1999 for the U.S. economy as well as for the world economy. "The U.S. economy is slowing, but it's slowing

slowly," says David W. Berson, chief economist for the Federal National Mortgage Association (Fannie Mae), the quasi-federal agency that serves as a secondary mortgage market.

Few economists forecast a recession in 1999, but one could come in 2000, some of them say, because of continued financial crises around the world, the year 2000 computer problem, and slowdowns in consumer spending and business investment. Economists define a recession as two consecutive quarters of "negative growth" in the gross domestic product, the broadest measure of the U.S. output of goods and services.

But Mark Zandi, chief economist for Regional Financial Associates in West Chester, Pa., puts it succinctly for American businesses: "Batten down the hatches!"

An Inevitable Slowdown

Most forecasts are close to those of the U.S. Chamber of Commerce and the 50 business and academic economists surveyed monthly for *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*, both issued by Aspen Publishers Inc. of Alexandria, Va.

Martin A. Regalia, vice president and chief economist of the U.S. Chamber, says the business organization is forecasting a 3.6 percent increase in GDP for 1998 followed by slower growth of 2.2 percent in 1999. Final 1998 GDP data will be reported in late January.

"The state of the economy is not as bad as everyone thinks," says Regalia. But like others, he says a slowdown is inevitable because the U.S. growth rate cannot be

The Outlook By Region

Each percentage below reflects the 1998 estimated or 1999 projected increase of gross domestic product over its level the previous year.

New England

1998 Estimate: 3.8%
1999 Projection: 1.5%



The New England economy has undergone restructuring in areas

such as technology and financial services since the recession of the early 1990s. As a result, says Peter Gioia, an economist with the Connecticut Business and Industry Association in Hartford, "we're positioned a little bit better to weather the storm that's going on."

The region has a tight labor supply and is not overbuilt in real estate, says Nicholas Perna, chief economist for Boston-based Fleet Financial Group, and New England states' finances are sound. So even if a slowdown occurs, Perna says, the region could see "pretty vigorous economic growth."

Middle Atlantic

1998 Estimate: 3.2%
1999 Projection: 1.7%



New York state has two economies: one robust, one not. The New

York City area "is the driving force in the state now," says Edward Casey, senior economist/energy management for Consolidated Edison Inc. of New York City. Casey says business in the city is good, office space is tight, and there have been no massive reductions of jobs on Wall Street.

Upstate New York, however, is seeing slower growth, with layoffs at several big companies in Rochester.

In Pennsylvania, says Richard Moody, a regional economist with PNC Bank Corp. in Pittsburgh, "we've seen growth lagging behind the national pace." Growth has been hampered, he says, by consolidations in the health-care industry and by a lack of expansion in manufacturing.

South Atlantic

1998 Estimate: 3.4%
1999 Projection: 1.5%



Although the South Atlantic region has not been hit hard by overseas fi-

nanial crises, Ann Battle, regional economist for Crestar Bank, based in Richmond, Va., says, "We may be starting to see some of the ripple effects" from Asia in 1999.

Virginia's growing high-technology industry was dealt a blow when Motorola Inc. of Schaumburg, Ill., postponed work on a \$3 billion plant near Richmond.

North Carolina is seeing its financial and services sectors boom, and South Carolina's manufacturing sector is robust.

In Florida, "population growth remains a key part of our economic growth," says John Godfrey, a principal in Florida Economics Associates, a Jacksonville forecasting firm. New residents, he says, boost consumer spending and construction. But the state could be hurt if Latin America's economies falter and U.S. exports become unaffordable in that region.

East South Central

1998 Estimate: 2.7%
1999 Projection: 1.0%



Kentucky's economy, with its Midwest-style manufacturing base, is doing well,

but growth in the rest of the region is slower. In Tennessee, "there have been no manufacturing cutbacks yet, but I suspect we will have some," says Bruce Bittles, chief market strategist at J.C. Bradford Co., a brokerage firm in Nashville.

In Alabama, Robert Allsbrook, chief economist for AmSouth Corp., a financial-services firm in Birmingham, says, "Textiles and apparels have been replaced [in economic importance] by auto manufacturing and technology." He says the new businesses pay better but require higher-skilled workers—and they are harder to find.

East North Central

1998 Estimate: 2.7%
1999 Projection: 1.0%



The Great Lakes economy is bouncing back after the General Motors

strike last summer. Once the nation's struggling Rust Belt, the region is robust in the face of economic downturns in Asia and elsewhere.

"It's sort of a test of the resilience of the Midwest economy," says Diane Swonk, deputy chief economist at Chicago-based Bank One Corp. She adds that the tight labor market is putting wage pressures on small firms struggling to cut costs.

There have been some layoffs, but Midwest manufacturers' products generally are those viewed by U.S. customers as necessary purchases—not luxury items that can be postponed indefinitely. Says Jon Udell, co-director of the Enterprise Center at the University of Wisconsin-Madison business school: "To date, there is not much evidence of a slowdown."

COVER STORY

sustained in light of the tight job market and the inflation threat posed by higher wages.

The *Blue Chip* forecast is close to the Chamber's. It says that the GDP's 1998 growth rate will be 3.5 percent but that the increase will fall to 2.1 percent in 1999. (See the chart on Page 18.)

Randy Moore, executive editor of the two *Blue Chip* publications, says there are many causes for the slowdown. "If you look across the board, it's not just one big area that's going to drop dramatically. A lot of sectors are past their peak," he says.

Overseas financial problems are dampening U.S. exports, and the stock market's volatility is making businesses and consumers cautious—resulting in a slowing economy that the Fed decided needed

stimulating with lower interest rates.

As the U.S. economy is slowing, so is the global economy. The World Bank, based in Washington, D.C., puts world economic growth in 1998 and 1999 at about 1.8 percent to 1.9 percent annually, down from the average annual rate of 3.1 percent during the 1980s.

"The slowdown is protracted and will last well into 1999," says Uri Dadush, director of the development-prospects group at the bank, which assists developing countries with loans and other services.

Adds Murray Weidenbaum, chairman of the Center for the Study of American Business at Washington University in St. Louis: "The best we can hope for is that 1999 will be a year in which we can adjust to the problems of 1998 and 1997."

Impact In The Heartland

In St. Louis, where early American explorers set out to chart the unknown West, the impact of the new technology-driven global economy is already being felt.

"Our business in the Far East has gone to hell in a handbasket," says Ernest Stokes, director of international sales for Allied Gear & Machine Co., a St. Louis firm that manufactures machines that print labels or produce wrapping for consumer products. "Right now, for all practical purposes, there is no business there."

Despite the drying up of sales in the Far East, he says, Allied, which has 200 employees and derives 60 percent of its revenues from overseas, foreign sales are up 35 percent over a year ago, mostly because of an expansion of markets in Europe.

At Western-wear marketer Dahlberg's Double EE Brands, the export slowdown cut annual revenues of \$1 million in half over the past year. He has reduced expenses and overhead and has stopped attending trade shows overseas. And he sees a recession coming.

Yet he also sees his sales picking up and is looking forward to a forthcoming trade show in Denver. "In the accessory business," he says, "we find that a recession drives sales up" as consumers shy away from big-ticket items.

The economic slowdown is serious for Maltiplex's Kisling, whose company makes 40 percent of its sales overseas. Exports of the firm's beverage-dispensing equipment were off \$500,000 from the normal \$10 million level for the first nine months of 1998. "There's not much optimism," he says, "for the Mideast and Asia."

Seung H. Kim, director of the Institute of International Business at St. Louis University, says that St. Louis may not yet have felt the full ripple effects from economic problems overseas. Although there are currently "crunches in exporting," Kim says, he's more concerned



United States

1998 Estimate: 3.6% 1999 Projection: 1.7%

West North Central

1998 Estimate: 3.2%
1999 Projection: 1.1%



Farm Belt crop prices have plunged because of a

bumper harvest and a big drop in Asian markets for livestock, feed grains, and meat products. And as farmers have been hit hard, so have the agricultural-supply and -equipment industries.

In Nebraska, Dick Glock, executive vice president of Farmers National Co. of Omaha, a farm-management and realty firm, says land values in the area have fallen 10 to 15 percent this year, and "it could be another 10 to 15 percent drop next year."

The job markets in cities in the region are tight, but businesses are still expanding. Says Ron Sagraves, senior economist at the Midwest Research Institute in Kansas City, Mo.: "The last two or three years have been exceptionally good years."

West South Central

1998 Estimate: 4.6%
1999 Projection: 1.6%



This region, dominated by Texas, has been hit hard by the plunge

in oil prices worldwide and a drought that decimated farm crops. "Oil prices are very soft, and they're not expected to go up any time soon," says Mine Yucel, senior economist at the Federal Reserve Bank of Dallas.

Technology companies continue to do well, although the semiconductor industry's exports to Asia have slowed. A decline in exports to Mexico has dampened economic activity along the border.

Jared Hazelton, director of the Center for Business and Economic Analysis at Texas A&M University in College Station, says 1999 will be "a reasonable year but not as good as 1998."

Mountain West

1998 Estimate: 5.0%
1999 Projection: 2.1%



The Mountain West continues to be the fastest-growing

region. Phoenix, Salt Lake City, and Denver pull the region along with their high-technology, telecommunications, and health-care industries.

Tim Hogan, director of the Seidman Research Institute at Arizona State University at Tempe, says the Asian crisis has pushed exports down 20 to 50 percent. "People in the Western region do a lot of their business with Asia," he notes.

Nonetheless, the region appears headed for long-term growth. Says Richard Wobbekind, director of the Business Research Division at the University of Colorado at Boulder: "We're still outpacing everybody for the next 10 years."

Pacific West

1998 Estimate: 3.8%
1999 Projection: 1.6%



California's economy, which has roared back the past few

years, continues to be strong, although it will slow significantly in 1999, says Howard Roth, Los Angeles-based senior economist for Bank of America, headquartered in Charlotte, N.C.

Asian financial woes are hurting the San Francisco area, with its large concentration of high-technology firms. Although exports are down, imports are up, so "the ports remain very busy," says Roth.

In the Pacific Northwest, Asia's economic troubles are having a major impact on the aerospace, agriculture, and high-technology industries, says Paul Sommers, director of the Northwest Policy Center at the University of Washington in Seattle. But he adds that the software industry, led by Microsoft Corp. in Redmond, Wash., "hasn't heard the word 'recession.'"

When Alan Greenspan Speaks ...

The words of Alan Greenspan, chairman of the board of governors of the Federal Reserve System, are watched closely by investors for clues to impending Fed action on interest rates. Here is how Greenspan's thinking and actions evolved in 1998 as U.S. and global economic events unfolded:

Jan. 29

Testimony, Senate Budget Committee

"It is clear that the U.S. economy has been exceptionally healthy, with robust gains in output, employment, and income. At the same time, inflation has remained low. ... But before spring is over ... adjustments that financial difficulties are forcing upon several of our Asian trading partners will be showing through here in reductions in demand for our exports and intensified competition from imports. All of this suggests that the growth of economic activity in this country will moderate from the recent brisk pace."

June 10

Testimony, Joint Economic Committee of Congress

"Our economy has remained strong this year despite evidence of substantial drag from Asia, and, at the same time, inflation has remained low. ... This set of circumstances is not what historical relationships would have led us to expect at this point in the business expansion. ... That is why we are remaining watchful for signs of potential inflationary imbalances, even as the economy continues to perform more impressively than it has in a very long time."

July 21

Testimony, Senate Banking Committee

"Overall, the performance of the U.S. economy continues to be impressive. ... The economic and financial troubles in Asian economies are now demonstrably restraining demands for U.S. goods and services—and those troubles could intensify and spread further. ... Should pressure on labor resources begin to show through more impressively in cost increases, policy action may need to counter any associated tendency for prices to accelerate before it undermines this extraordinary expansion."

Sept. 4

Speech, University of California-Berkeley

"The economic performance of the United States in the past five years has in certain respects been unprecedented. ... Labor markets are unusually tight,

and we should remain concerned that pressures in these markets could spill over to costs and prices. ... It is just not credible that the United States can remain an oasis of prosperity unaffected by a world that is experiencing greatly increased stress."

Sept. 23

Testimony, Senate Budget Committee

"There is little evidence to date ... that foreign problems or the tightening in financial conditions in domestic markets have produced any significant underlying weakness in the American economy as a whole. ... However, looking forward, the restraining effects of recent developments on the U.S. economy are likely to intensify."

ing forward, the restraining effects of recent developments on the U.S. economy are likely to intensify."

Oct. 7

Speech, National Association of Business Economics

"To date ... the economy has remained in reasonable shape. ... But we are clearly facing a set of forces that should be dampening demand going forward to an unknown extent. In particular, a marked shift in investor psychology away from risk and toward liquidity and safety has exacerbated the problems in foreign markets. ... We do not know how far it will go or how much it will affect consumer and business spending here at home. This is a time for [those who determine] monetary policy to be especially alert."

Nov. 5

Speech, Securities Industry Association

"It is, of course, plausible that the current episode of investor fright will dissipate. ... Indeed, we are already seeing significant signs of some reversals."



PHOTO: RICHARD ELLIS-NEWSMAKERS

From Main Street to Wall Street,
Federal Reserve Chairman Alan Greenspan's thinking attracts intense scrutiny.

about the time-delayed impact of orders canceled in 1998.

In a survey by the St. Louis Regional Commerce and Growth Association and the Civic Entrepreneurs Organization, nearly one-third of respondents said their businesses had been hurt by economic problems overseas. Most were optimistic about the future, however.

Is The Worst Over?

Developments overseas and at home could undermine an already slowing economy and send it into a recession. However, some economists believe the worst may be over:

■ The economic situation worldwide remains volatile. Although the Pacific Rim appears to be stabilizing, especially with reforms afoot in Japan, there are concerns about Latin America and about Europe, where banks in 11 countries recently cut interest rates to spur growth in preparation for the Jan. 1 introduction of a common currency, the euro.

The World Bank's Dadush says: "We are seeing signs in the crisis countries that 1999 will not see the large declines we saw in 1998. We may very well see stability in countries like [South] Korea and Thailand," both of which have made reforms and received international aid.

Says the U.S. Chamber's Regalia: "I think [the Asian situation] has bottomed out, but I think it will be a protracted bottoming-out in Japan and Southeast Asia, taking three to four years."

■ U.S. exports, which had been booming, slowed considerably in the past year as Asian nations—some of the best overseas customers—fell on hard times. The U.S. trade deficit for the first nine months of 1998 was 50 percent larger than it was in the same period in 1997.

But the worst may be over, says Joseph Duncan, chief economist for Dun & Bradstreet, a New York City-based market-research firm. "We're not going to see the same percentage drop in exports in 1999 that we saw in 1998," he says.

■ There is a wide diversity of views on how the year 2000 computer problem, sometimes called Y2K, will affect the U.S. and global economies. The concern is that computers will interpret 00 as 1900 rather than 2000 and then erase or fail to recognize data.

Edward Yardeni, chief economist for Deutsch Morgan Grenfell Inc., a New York City-based securities firm, holds a dark view: "The year 2000 problem is going to cause a recession." Yardeni foresees major

Cuts In Interest Rates By The Federal Reserve Board

Sept. 29: 0.25 percent

Oct. 15: 0.25 percent

Nov. 17: 0.25 percent

COVER STORY

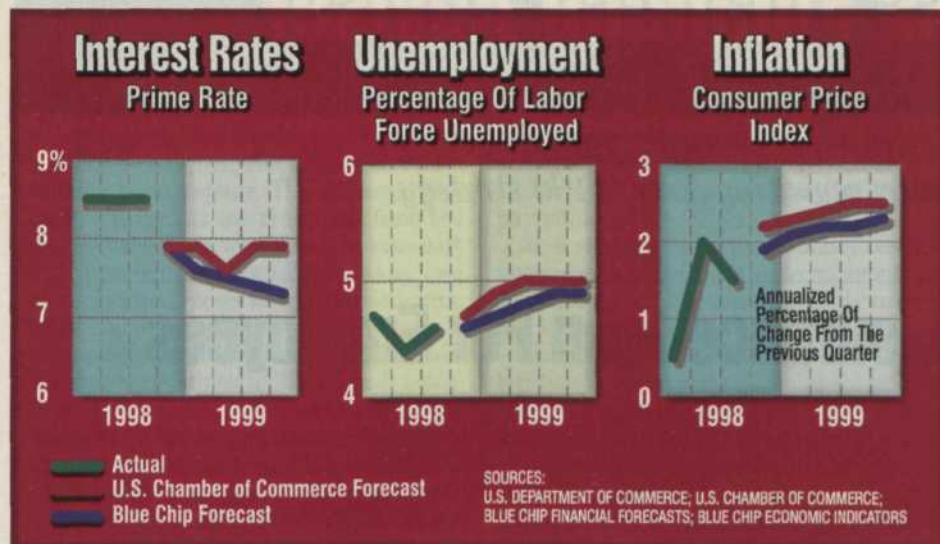


CHART: ALBERTO PACHECO

disruptions in "the flow of information, the availability of information."

Not everyone agrees. Says Dun & Bradstreet's Duncan: "Y2K is a serious problem, but I don't think it's going to be the disaster some people are predicting."

■ Consumers, whose spending accounts for two-thirds of the U.S. economy, could become more nervous, leading them to cut spending and increase savings. That wouldn't take much, since the U.S. savings rate—what's left over after taxes and spending—plunged below zero in September for the first time since the government began to track it in 1959. In October, the

rate went to minus two-tenths of a percent.

"Consumers have been spending beyond their means, and there's a limit to how long they can do it," says Wyss of DRI. "Now we have to slow down a bit."

■ Business confidence has weakened. The U.S. Chamber's Business Confidence Index is at its lowest point since mid-1993. (See the chart on Page 18.) The Conference Board, a business-research organization in New York City, reports that business optimism regarding the course of the economy is at its lowest point of the decade.

"Small businesses may do better than large businesses over the next year be-

cause trade problems hit big businesses more than they do small firms," says Berson of Fannie Mae.

■ Job creation is expected to slow in 1999, and the unemployment rate—which hit a 25-year low in 1998—is expected to creep back up to around 5 percent, which is still low historically.

Layoffs, especially in manufacturing, continue to grow. Challenger, Gray & Christmas, a Chicago-based outplacement firm, reports that for the 11 months through November, U.S. businesses had announced 574,000 job cuts, close to the 1993 level of 615,000, the decade high.

"We've still got a strong labor market," says the U.S. Chamber's Regalia. "We just won't create as many jobs as we have in the last year and a half."

Although the U.S. economy is solid as 1999 begins, the outlook is more uncertain than it has been in several years. Regional financial crises, the year 2000 computer problem, stock-market gyrations, and events in hot spots such as Iraq could alter the outlook overnight.

Yet in St. Louis, as in cities and towns throughout the country, business owners remain both cautious and optimistic. Says financial planner Cash: "They expect the best but prepare for bad times."

NB



To order a reprint of this story, see Page 67. For a fax copy, see Page 46.

What You Can Do To Prepare

Some economists are forecasting an economic slowdown—or even a recession—in 1999. Small-business owners seeking to survive whatever may come should consider the following suggestions:

Stay flush with cash. "Right now is a great time to borrow," says Carolyn Cash, owner and president of Cash Financial Group, a financial-planning firm in St. Louis. "You can borrow now at record-low interest rates."

Roger Harris, president of Padgett Business Services, a consulting firm in Athens, Ga., with thousands of clients nationwide, agrees: "When things are good, you'd better put some money away for when things are bad." He suggests building a nest egg or establishing lines of credit.

Rethink hiring. Small firms will continue to be squeezed between intense price competition and rising wages in a tight labor market. Harris says small

companies generally have believed they could always find workers. Not anymore.

Small businesses, he says, may have to tighten their work forces to cope with the worker shortage while hanging on to valued current employees. "Hire one less person and pay everybody more," he suggests.

Be special. When the economy slows, customers cut back on purchases, and that can be disastrous for small businesses, says John Graham, a Boston-area marketing consultant and the author of *The New Magnet Marketing* (Chandler House Press, \$16.95).

"A small business needs to do everything it can to differentiate itself from everybody else in the field," says Graham. That means developing brand identification—with a business logo, name, and colors—and developing a product or service that is unique—something the customer will want to keep buying even in tough economic times.

Love technology. Graham says small firms shouldn't think of a computer the same way they used to think of a typewriter—as a tool they'll have for many years until it wears out. He says small-business owners don't buy new computers and update their software as frequently as they should.

"See technology as a process," Graham says. "Embrace technology as fully as you can afford to, because that's going to give you the edge."

Plan, and plan again. It's not a good idea to stumble ahead into a slowdown or a recession without a business plan, says Nicholas Perna, chief economist for Boston-based Fleet Financial Group.

Perna suggests having a Plan A, for a slowdown, and a Plan B, for a recession. Include various cost-cutting steps for either eventuality, such as staffing an expansion with temporary help instead of new permanent workers.

"And if things come out better," he adds, "don't worry about" having spent time and effort planning for other possible outcomes.

Small Business Financial Adviser

Premium payments by payroll deduction; arrival of the euro; evaluating travel-related insurance; revisiting your 401(k) strategy.

A Minimum-Cost Insurance Plan For Employees

By Juan Hovey

If you are looking for a way to offer employees more benefits at minimal additional company expense, W. Clarke Lindley has some advice. Lindley, president and CEO of Lindley Laboratories, Inc., a Gibsonville, N.C., manufacturer of chemicals for the textile industry, found a simple solution several years ago.

He decided on a voluntary insurance program that allows his employees to buy life, disability, and dental coverage and have their premium payments deducted from their paychecks, all at minimal cost to Lindley Labs.

The employees decide the types and amounts of insurance they want, and they get the coverage at group rates, which are often lower than the rates for individual policies. The only expense for Lindley Labs is the cost of administering the program, which involves deducting the premiums from the employees' paychecks and remitting the money to an insurer.

Simply put, the program gives Lindley Labs a no-muss, no-fuss way to do good things for its employees at little cost.

"It's a good way for us to keep good employees, and one of the main benefits is that the employees themselves choose where to spend their benefit dollars," says Lindley, who leads the privately owned company, which has about 60 employees. "They have the say-so in the benefits they provide for themselves and their families—and they get the insurance at better rates than they would pay if they bought the coverage individually."

A Well-Received Arrangement

Payroll-deduction insurance programs are highly popular. About one-third of U.S. employers offered payroll-deduction plans to their workers in 1994, according to a survey by LIMRA International, a Hartford, Conn., marketing and research organization funded by life insurers. Among companies employing 50 to 99 workers, 41 percent offered payroll-deduction insurance, according to LIMRA.

Life insurance is the most popular

coverage. Insurers sell both term and universal life coverage through payroll-deduction programs. They also sell dental coverage and both short-term and long-term disability insurance. Some employers also offer vision care and even automobile and homeowner's in-

[dollars] has been generated by the sale of voluntary life and health insurance products in the U.S.," says Janet Cannon, a LIMRA researcher.

She said that a recent survey still being tabulated is expected to show that the number of employers offering

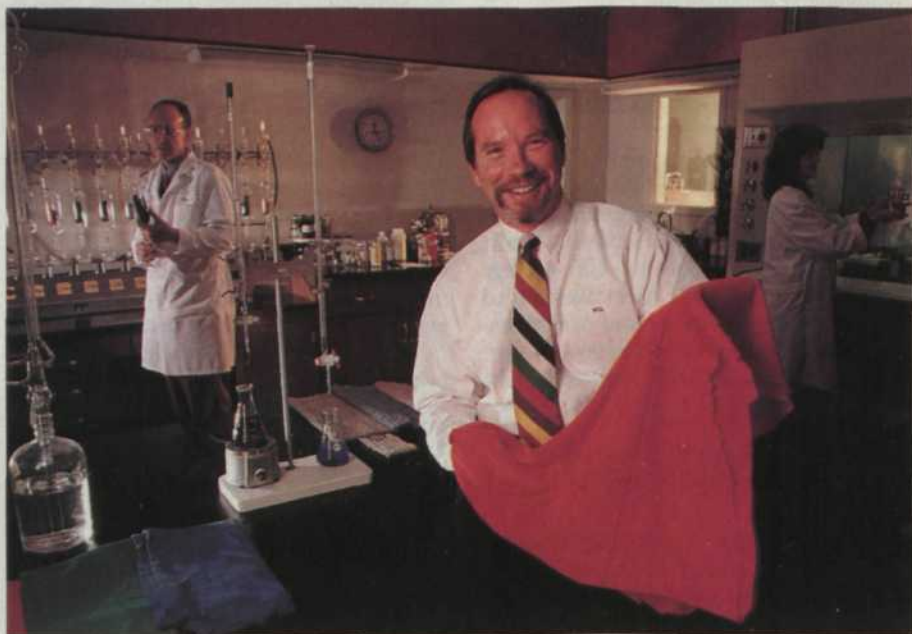


PHOTO: © JIM STRATFORD—BLACK STAR

At Lindley Laboratories, Inc., in Gibsonville, N.C., W. Clarke Lindley, president and CEO, started a payroll-deduction insurance program that has good chemistry for his employees and the firm.

insurance via payroll-deduction programs.

Major insurers with payroll-deduction programs include American General Life and Accident Insurance Co., American Heritage Life Insurance Co., Guardian Life Insurance Co. of America, Provident Life and Accident Insurance Co., and Transamerica Assurance Co.

Employees themselves give a thumbs-up to payroll-deduction insurance. Fifty-one percent of employees surveyed by LIMRA International in its 1994 survey said they prefer buying insurance via payroll-deduction plans rather than through direct dealings with insurance agents.

"Since 1992, \$2.8 billion in premium

voluntary insurance to their workers increased in 1997.

A Straightforward System

How do the programs work? From the employer's standpoint, their attraction is their simplicity. Lindley listened to a pitch from his insurance agent about the benefits and mechanics of payroll-deduction insurance and gave the go-ahead. Now he spends no time at all worrying about the program.

"Once the employer agrees to allow his or her employees to buy insurance via payroll deduction, that pretty much ends the employer's part in the idea," says Lindley's agent, John Williams, of Davis,

SMALL BUSINESS FINANCIAL ADVISER

Williams & Associates, an insurance agency in Charlotte, N.C.

The agent meets with the employees one at a time or in small groups and explains how the plan works. The employees decide whether to participate. The employer simply has to deduct the premiums from the paychecks of those who choose to take part and send the insurance company one monthly check covering all participants. "That's all there is to it," says Williams.

Employers can offer their workers term life insurance, which builds no cash value, at level premiums guaranteed for 10, 20, or 30 years, Williams says. As an alternative, they can offer universal life insurance, which builds up a cash value over time.

Says Cannon: "Universal life insurance has been the lead product in voluntary payroll-deduction insurance since 1992, when [LIMRA] started keeping statistics on this market. But more and more insurers are offering more and more insurance products, including level-term insurance and even interest-sensitive whole life insurance."

Focusing On Disability Coverage

Because people under 65 are more likely to have accidents and illnesses than to

die, employees may find it more important to have disability coverage than life insurance, Williams says. People need income protection against disability, so employers should pay particularly close attention to the coverage they offer via payroll deduction.

As a rule, short-term disability insurance pays a benefit for up to six months, Williams says. Long-term disability coverage kicks in thereafter.

The benefits available under both short-term and long-term disability coverage can reach 60 to 70 percent of gross pay. If the employee pays the premiums—even if the employer remits the premium to the insurer—the benefits are tax-free.

But if the employer pays the premiums out of company revenues, the benefits are subject to personal income tax.

It's important to make this distinction because federal and state taxes together can exceed 40 percent of income.

Hence the disabled employee who receives a tax-free benefit of 60 to 70 percent of gross pay may suffer no net loss of income, Williams says. But the employee who pays taxes on disability benefits must cope not just with the disability but also

with a potentially big loss of income to taxes.

The employer should also check on whether the disability coverage is portable, Williams says. Portable insurance can remain in force even after the employee leaves the company as long as the premium is paid. Hence, the employee may take the coverage from job to job simply by continuing to pay the premiums.

If the insurer underwrites the coverage individually—that is, bases its premiums on the medical history of each employee rather than on that of the whole group—the insurance is probably portable. If the insurer offers only group coverage, it may be portable but at a higher premium. Given a choice, Williams says, the employer should choose individually underwritten coverage.

As the costs of employee benefits continue to rise, more employers are likely to install payroll-deduction programs, says Lindley. "With a program like ours," he adds, "everybody wins."

Juan Hovey is a financial columnist for The Los Angeles Times and writes frequently for Nation's Business.

INTERNATIONAL COMMERCE

Get Ready For Europe's New Money: The Euro

The euro, the new unified currency being adopted for banking and commercial transactions by 11 European countries as of Jan. 1, should prove to be a hit for Americans who have business ties in Europe. Hassles with multiple exchange rates should diminish for companies doing business in the countries switching to the euro, and the costs of currency-exchange transactions are expected to decline.

The countries in which use of the euro becomes an option are Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

"The euro will make my life a lot simpler," says Charles Hawk, managing director of ACFEA Tour Consultants, a company in Edmonds, Wash., that organizes European tours for amateur musical groups.

Hawk says that instead of keeping multiple currencies on deposit for expenses, he can use euro EFT—electronic funds transfer—to pay European hotels, transportation providers, and food vendors ahead of time. "I'll have a euro account," he says, "and they'll have a euro account, which means they'll be quoting me prices in euro, and I'll be paying them in euro."

No euro currency will be available until

Jan. 1, 2002, but traveler's checks are available as of Jan. 1. American Express, Visa, MasterCard, and others have checks available in denominations of 50, 100, and 200 euro. The value of the euro in relation to each euro-participating nation's currency is set irrevocably as of Jan. 1. In relation to the dollar, the value of the euro is expected to fluctuate between \$1.15 and \$1.20.

American Express spokeswoman Victoria Handwerk says: "Having a common-denominator check will cut the cost of exchanges from one currency to another when you visit several European countries. As for using credit cards, it will be the same as before. You use your card, and you'll be billed in dollars."

But at the point of purchase, she says, "it will be easier to understand what you're actually paying in Paris, Frankfurt, or Milan" because prices will be posted in both the local currency and the euro. (Each nation's currency will cease being

legal tender effective July 1, 2002.)

For more details on the euro, check the European Union's World Wide Web site, at europa.eu.int/euro.

—Peter Weaver

The author is a business writer in Bethesda, Md.



INSURANCE

Check Out Your Coverage For Business Trips

If you travel for your business, you probably are confronted with a wide variety of travel-insurance options covering everything from your life and health to your car and baggage.

If you've bought any such policies, you may be overinsured because of coverage already in force for your home or car or because of insurance benefits provided through your credit cards. If you haven't bought any travel-oriented coverage, however, you might be underinsured for potentially costly risks not included in your current coverage.

Check with your insurance agent on getting the best travel-related insurance at the best price.

You, Your Health ...

In evaluating what you have and what you need, start with your automobile coverage. "If you think your personal policy covers rental cars, think again," says Jeanne Salvatore, director of consumer affairs for the New York City-based Insurance Information Institute.

Never assume your personal policy covers business use of a rental car; check to be sure. Yet such coverage may be a feature of an upgraded credit card—corporate, gold, or platinum, for example—in your possession; check with the card issuer.

If you have no such coverage from either source, however, you may need to ante up for the insurance package offered by the rental-car desk agent.

Next, check your health insurance to see how well you're covered for life and limb while away from home. Although your personal health insurance usually travels with you on business, your workers' compensation medical coverage may not.

Ralph Davis, president of Travel Insurance Services in Walnut Creek, Calif., says many people are not aware of what their workers' compensation

insurance will and won't do for them while they're traveling, whether in the United States or abroad. You have to check with your agent.

For example, you may have—but not

specific trip from travel agents and insurance agents.

"Another thing you have to check," says Davis, "is whether or not you're covered for workers' compensation medical expenses on a business trip if you've taken a day or two off for a little vacation or sightseeing." Insurance companies usually won't pay if you're not actually working, he warns. Be sure the limitations are stated clearly in your company policy.

... And Your Belongings

Next, consider coverage for your baggage and belongings. "Your personal things are almost always covered by your [homeowner's or renter's] insurance," says Sharon Emek, president of The Emek Group insurance agency in New York City. "Buying extra baggage insurance on the spot is usually not worth it."

Watch out for your laptop computer, however; it may not be covered. "If your business purchased your laptop," Emek says, "you need special insurance called electronic-data-processing coverage." This coverage is relatively inexpensive and covers all your computer equipment at the office, at home, and on the road. "It even covers the reconstruction of your lost data," Emek says.

"You can also get cell-phone coverage," Emek says, but she cautions that the premium may be relatively high.

If you're planning to make a hefty down payment on a cruise or other big-ticket travel package, you may be offered trip-cancellation or trip-interruption insurance. It reimburses your nonrefundable down payment if you cancel the trip because of illness, a death in the family, or some other calamity.

It does not cover any down-payment loss if you cancel simply because you're too busy to go or you changed your mind.

"Unless your health [or a relative's] is iffy," says Emek, this coverage is seldom worthwhile.

Finally, in the airport you may notice a counter where you can buy a policy that pays if you're killed or maimed in a plane crash. Your regular life insurance should be adequate, Davis says. "Don't try to bet on how you're going to die."

—Peter Weaver



Before you take off, be certain you have insurance for travel mishaps—from fender-benders with a rental car to loss of your laptop computer to emergency travel home if you fall seriously ill.

know you have—coverage for emergency medical evacuations from less-developed countries. Clark Walter, spokesman for Chicago-based CNA Insurance Co., says his company's workers' compensation policies cover medical-evacuation costs up to \$50,000 at no extra charge.

Other workers' compensation carriers, such as Chubb Corp., Cigna Corp., and Kemper Insurance, can also provide medical-needs coverage, including evacuation, while you're on a domestic or international trip. Check with your insurance agent.

If you have no coverage for the costs of medical evacuation from countries where you might not be able to get adequate treatment for severe illness or injuries, you can obtain such coverage for a

INVESTING

Should You Change Your 401(k) Strategy?

By Randy Myers

Is doing nothing really smart?

The stock market's big tumble in the third quarter of 1998, followed by its wild swings in the fourth quarter, have left millions of 401(k) retirement-plan investors wondering if they should rethink how they're investing their money.

The short answer: They probably shouldn't.

Virtually all financial planners agree that a big drop in the stock market is not enough, by itself, to justify changing how much of your retirement money you put in stocks, bonds, or money-market funds.

"Don't focus on one quarter or one year when you're investing for retirement," advises Colleen Enrietto, a certified financial planner in the Group Financial Planning Practice of Hewitt Associates LLC, a consulting firm based in Lincolnshire, Ill. "Funding your retirement is a long-term goal."

Still, there's no harm in revisiting your asset-allocation strategy to make sure you did it right in the first place.

"If you were overzealous in your investment choices and had decided that you could be really aggressive because the market was doing so well [before 1998's tumultuous third and fourth quarters], then you might need to re-evaluate your strategy," says Dee Lee, a certified financial planner with Harvard Financial Educators in Harvard, Mass., and co-author of *The Complete Idiot's Guide to 401(k) Plans* (Macmillan, \$17.95).

Suppose, for example, that you had allocated 100 percent of your 401(k) account to stock funds last year. Stock funds are much riskier than bond funds over short periods, and they proved it in 1998. The average domestic stock fund lost 15.2 percent of its value during the first nine months of the year, according to Lipper Analytical Services Inc., a Summit, N.J., research firm.

"If that [kind of loss] is something you just can't live with, then you may need to change your investment objectives, especially when you consider that this may not be as bad as it gets," says Daniel Maul, a registered investment adviser with Retirement Planning Associates in Kirkland, Wash.

"Whether it gets worse this time or the next we don't know," Maul says. "But this kind of volatility is to be expected every three to four years."

Moves You Can Make

The simplest fix for a 401(k) account overweighted in stocks is to transfer some of its assets into bonds, which produce lower returns over time but can buoy your portfolio when stocks are tanking.

A traditional, conservative mix (and probably too conservative for investors under age 40) would call for putting 60 percent of your account in stock funds and 40 percent in bond funds. Another solution: Swap your money out of your stock fund and into a balanced fund, which invests in both stocks and bonds. The average balanced fund earned 1.9 percent in the first nine months of 1998.

You're probably still a lot richer than you were five years ago. Despite 1998's turmoil, the average domestic stock fund had earned an average of 13.7 percent per year for the past five years through Sept. 30.

Sale! If stock prices have turned lower again as you read this article, you may be able to buy stocks at bargain rates with your current 401(k) plan contributions. That means your gains will be that much bigger when you retire.

Time is on your side. In all 53 rolling 20-year periods from 1926 through 1997, stocks generated positive returns, according to Ibbotson Associates, a Chicago-based research firm. Stocks also generated



Time To Rebalance?

Even if you conclude that your asset-allocation strategy is just right, it may be time to do some housekeeping in your 401(k) account. Despite 1998's dramatic fluctuations, the stock market is still much higher than it was just a few years ago. (The average domestic stock fund earned 95.3 percent compounded for the three-year period of 1995 through 1997.)

That means your stock holdings probably grew much faster than your bond or money-market holdings and now represent a bigger slice of your 401(k) pie than you targeted. If so, you'll need to rebalance by transferring some money out of your stock funds and into the other investments within your 401(k) plan.

If such modest responses to the stock market's gyrations don't seem sufficiently decisive or consoling, the following additional thoughts offered by financial planners may help you feel better:

positive returns in 61 of the 63 rolling 10-year periods during that time.

"If people would think of stocks the way they think of real estate, they would be a lot more comfortable owning them," says Maul. "Real estate is actually a much riskier investment than stocks are because it's usually highly leveraged. [Most people finance their house with a mortgage rather than pay cash.]

"Your chances of incurring losses and gains are much higher. But people can't check the value of their house in the newspaper every day; they only know that over the long term real estate has been a good investment."

Likewise, over the long term, stocks remain a good investment.

NB

Randy Myers, formerly a writer and editor for Dow Jones & Co., Inc., is a financial writer in Dover, Pa.

MANAGING

Leadership Skills Employees Respect

By Michael Barrier

You might think that being the CEO of a small business automatically qualifies you as its leader. But Pamela Barefoot, president of Blue Crab Bay Co., a producer of specialty foods and gifts in Onancock, Va., says: "I felt like I was in the back seat of the car and nobody was driving. My lack of confidence in where we were going and how we were going to get there affected everybody."

Barefoot started Blue Crab Bay in her home in 1985, selling gift baskets of Virginia products. Sales rose from \$5,000 in her first year to \$600,000 five years later, but this financial success aggravated rather than eased Barefoot's anxiety.

"I was scared because I didn't know what I was doing," she says. "I'd never run a company before. This company was growing so fast, and we were undercapitalized, and everything I had was on the line. I had to decide: Am I going to get on this horse and ride it, or am I just going to stand on the sidelines and let it run ahead?"

With the help of a consulting firm, Barefoot did find a way to get onto that horse. Now Blue Crab and its two dozen employees are about to move into a 12,500-square-foot building in an industrial park in Melfa, Va.

Like other successful small-business people, Barefoot developed crucial leadership skills in three areas that can be summed up under the headings communication, accountability, and trust. Think of them, if you will, as the big CAT.

The advice of experts and the testimony of business people suggests that if you can develop CAT skills, there's a good chance you'll become ruler of the jungle.

Communication

In writings on leadership and in business people's accounts of their own leadership crises, the ability to communicate effectively emerges repeatedly as the most important skill to cultivate.

In Barefoot's case, the first move toward developing this skill was writing a mission statement that would clarify for her employees—and for Barefoot herself—what

the firm was all about. A mission statement lays out a company's goals and articulates the principles that the company will adhere to as it tries to reach those goals.

A small-business owner with a clear sense of purpose may regard a mission statement as superfluous. "It can often

The critical areas are communication, accountability, and trust.

people too often where you're going, what the vision is."

Barefoot believes that you should start devoting attention to communication when your company grows to more than five or six employees. "It seems as if every time we get upset here, or something goes



PHOTO: T. MICHAEL KEZA

To manage the growth of her specialty-foods firm, Pamela Barefoot, center, president of Blue Crab Bay Co. in Onancock, Va., developed leadership skills in communication, accountability, and trust. With her are Dawn Colona, left, treasurer, and Linda Nyborg, director of operations.

feel almost corny to write out something that everybody [in the company] already knows," explains Michael Useem, director of the Center for Leadership and Change at the University of Pennsylvania's Wharton School.

But, he says, "in any setting, you need to be clear about your vision and very articulate in getting it across to people you want to go with you. You need to have a very strong team built up before you really need to use it to its maximum."

A mission statement is still only a first step, however. You also need what Useem, author of *The Leadership Moment* (Times Business, \$25), calls "routine communication to remind everybody" of what "the point is of working so hard. You can't tell

wrong," she says, "it's because we're not communicating. Somebody will say something, and somebody else will hear it a different way."

What consultant and author Patrick Lencioni calls "the need to structure a lot of things that have been occurring in the company naturally" arises as a company grows larger and informal communication based on day-to-day contact becomes more difficult. "What they want most is growth," Lencioni says of the leaders of such businesses, "and yet when growth occurs, they resist doing the things they need to do to continue to fuel that growth."

When a start-up company has perhaps 10 employees, Useem says, "it's very personal, with typically very strong loyalty

between you and the people who come in. By the time you get up to a couple of hundred, your ability to exercise authority, or to get people to work real hard, no longer can rely on that personal daily contact. You've got to lead through other means. Your words begin to count a lot more."

When you say something to 300 people, he adds, "it has staying power way beyond a similar statement when you've got three." People are seeing you less and hearing you less, and for that reason what you say when they do see and hear you counts for more.

Your way of communicating must change as you grow, but what about the content of that communication? Whatever the size of the firm, you should share information with your employees "that allows them to feel that they've achieved a certain set of objectives," says New York City-based consultant Gary Brooks, chairman of the Institute of Management Consultants.

"If you divorce the employees from that sense of accomplishment," he says, "they really don't know what they're there for and what to strive for. The more that you can involve them in the creation of the targets, and then keep them posted as to how they've progressed against those targets, the happier the employees. Most people need objectives to work toward."

A small business's leader must constantly reinforce and explain those objectives. That is the lesson suggested by the experience of Bob Tingey, president and chief operating officer of Sorenco Laboratories, a privately held, 55-employee company in Salt Lake City that manufactures private-label personal-care products.

After he became president of Sorenco six years ago, Tingey began changing the company's manufacturing processes to bring them into line with the ideas of the quality-management movement. "At the very beginning," he says, "it was like dragging a dead horse. I was tempted many times to say, 'If you can't do it this way, you need to find somewhere else to work.'"

Instead, Tingey took the trouble, repeatedly, to explain the reasons for the changes and to show their advantages. "When we would catch a problem that we would have missed" under the old system, he says, "I

would bring people together and have a little teaching moment," explaining how the change had saved the company money. As he did, resistance gradually melted.

Accountability

If you're successful in communicating your company's goals to your employees, you're



PHOTO: CSAL DIMARCO JRL—BLACK STAR

"Be clear about your vision and very articulate in getting it across to people you want to go with you," says Michael Useem, director of the Philadelphia-based Center for Leadership and Change at the University of Pennsylvania's Wharton School.

only partway home; you must hold them accountable for how well they perform in striving toward those goals.

"A lot of CEOs in small companies create a family-like atmosphere in the company, which is great," says Lencioni, author of *The Five Temptations of a CEO* (Jossey-Bass, \$20). "But that makes it difficult for them to separate popularity from accountability." It's by holding employees accountable, he says, that you earn their respect.

You can't hold people accountable for reaching goals, though, Brooks says, unless you've given them "the authority to achieve those goals."

Neither does holding people accountable mean abusing them. As Brooks says, "Nobody likes to get yelled and screamed at."

There's no yelling and screaming when something goes wrong at Accommodations by Apple, a 14-employee company in Lenexa, Kan., that specializes in corporate relocations to the Kansas City area.

Founder Kierstin Higgins says that when, say, a client explodes in anger over a perceived shortcoming in the firm's services, "we try to round-table everybody together" and discuss what happened to understand why the client reacted that way.

Because the services are so personal—

ranging from airport pickups to the transfer of medical records, with an emphasis on family matters—and the demands accordingly severe, "it's important to shore [the employees] up," Higgins says. "Our employees are very young and energetic, but they're also very emotional, with major ups and major downs."

"Trying to help them learn from the challenges they've experienced, as opposed to getting burned out," is, she believes, the essence of being a good leader in her company.

Likewise, Tingey says, "whenever something goes wrong around here, we never go after the person who messed up. The question we ask is, what process doesn't exist, or what process let us down and needs to be improved?"

That doesn't mean bad apples won't turn up or that they shouldn't be tossed out, he says. "But if people are following the process and something goes wrong, there's never a word said to the people involved"—because, he

says, "it's almost always because management hasn't prepared the process well enough, or trained them well enough."

In other words, you have to hold yourself accountable, too, and do so with increasing self-awareness as your company grows beyond your ability to control the details of its operation.

Lencioni says decisiveness is an area where small-company owners must measure themselves rigorously. Being decisive usually isn't a problem for the owner of a very small company who has to make quick decisions if the firm is to survive. But it may become a problem as the company grows and its survival seems assured.

Another critical measure of your own performance, the experts suggest, is how willing you are to give other people some of the authority you have been exercising. "If you're micromanaging," Useem says, "you're definitely not leading."

By the time you get up to several hundred employees, he says, the caliber of your management team has become extremely important, "because at that scale, you just can't get things to happen yourself. You need a cadre of people who are leaders in their own right."

At Blue Crab Bay, Barefoot has already

MANAGING

created new layers of management—not to separate herself from her employees, but to entrust authority to supervisors. She had to delegate more, she says, “so I could concentrate on what I was good at,” such as expanding the company’s product lines.

Trust

You’ve communicated clearly and constantly to your employees what your company is about. You’ve held yourself as well as your employees accountable for how well they’re going about achieving the company’s goals. The fruit of such a shared effort should be a deepening trust that can free both business owner and employees to do their best.

“You have to trust them to be making good decisions,” Useem says. “They have to trust you to know where you’re going. There’s no rocket science involved. Trust is engendered through openness, integrity, clarity of expression—it’s the accumulated product of saying what you’re going to do, and doing it, and getting results.”

Says Barefoot of her employees: “They know how I feel about things, and when I leave here they can run this business just as well as I can, because they know the way I want it done.” She now takes extended foreign trips that she would

have found unthinkable a few years ago.

Among other things, a sense of shared purpose can free an owner from the need to deal with a problem employee. “Things get resolved a lot faster now” in such cases, Barefoot says, because her managers and employees “have the confidence to step in there and get it straight.”

Trust can also strengthen your company when a crisis occurs. Accommodations by Apple lost one of its largest clients in a downsizing in 1997. Higgins laid out the situation to her employees, even though she feared they might leave when they knew how dire the situation was. “They all stayed,” she says, adding that she and her employees sought out new accounts, “and we built up enough revenue to keep all of those employees.”

Trust is a personal thing, though. What happens when your company has grown to 30 or 40 employees and it has employ-

ees that you didn’t even interview or that you don’t see very often?

“The key is to focus on maintaining that trust among your direct reports,” Lencioni says. “As the company grows, the CEO has to accept a more limited span of direct control and really work to ensure that direct span is stronger than ever before.”

“Trust is engendered through openness, integrity, clarity of expression—it’s the accumulated product of saying what you’re going to do, and doing it, and getting results.”

—Michael Useem,
Wharton School

The rewards of being an effective leader can be measured not just in the steady growth of companies such as Blue Crab Bay and Sorencio Laboratories and in the sur-

vival of companies such as Accommodations by Apple but also in the psychic satisfaction felt by the leaders themselves.

“I’m braver in a lot of areas,” Barefoot says. “In 1990, I didn’t even know how to turn on a computer. I didn’t know how to read a financial statement, and I’m not intimidated by that anymore.”

Says Sorencio Laboratories’ Tingey: “The first three years I was here, I didn’t sleep very well, worrying about everything—worrying about whether what was on that pallet was what the customer wanted, worrying about whether people were going to show up to do the job. I sleep well now.”

Blue Chip Leadership

The three small businesses featured in this article—Blue Crab Bay Co., Sorencio Laboratories, and Accommodations by Apple—were all chosen as Blue Chip Enterprises in the annual competition sponsored by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, and *Nation’s Business*.

The program honors firms that have successfully weathered significant challenges of many kinds. Any company that has been in business for at least three years and employs five to 400 people is eligible.

The 1999 competition is under way, and applications must be submitted by Jan. 30. About 150 small businesses from around the country will receive a Blue Chip award, and four national designees will be honored at the U.S. Chamber’s annual meeting in June.

For an application, send an electronic-mail request to bluechip@nationsbusiness.org or call 1-800-FOR-BCEI (1-800-367-2234). You also can complete and submit an application via the Internet at www.nbmag.com/baward.htm.

18

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FINANCE

A Big Factor In Expansion

By Roberta Reymes

For a growing company, factoring—converting accounts receivable into cash by selling them to a financing firm for a fee—can play a critical role in enabling expansion. Just ask Phil Nagel, owner and president of *firstPro*, Inc., a temporary-staffing company based in Atlanta.

He started his company—which provides temps in information technology, skilled trades, and other fields—in 1985 and signed with a factor two years later to get working capital to expand.

This was just after the company was awarded a contract to supply workers to Coca-Cola Co.'s regional bottling plant in Atlanta, and his firm needed to expand to fulfill the contract. Nagel used the financing technique steadily for 10 years, selling invoices each week to The Commercial Finance Group (CFG), his factor.

"*firstPro* was going through growth of 30 percent to even 70 percent in some years," recalls Tracy Eden, CFG's Southeastern regional manager, based in Atlanta. (CFG is headquartered in Burbank, Calif., and has 22 U.S. offices.)

Today, *firstPro*'s sales are \$30 million, the company has "graduated" to bank financing, and Nagel is planning an initial public offering. "Factoring allowed me to grow at a faster pace than would have been possible otherwise without selling my company or any stock in it," Nagel says. "It was perfect for us."

In factoring, after the business owner sells some or all of the company's accounts receivable to a factor, the financing company typically advances 50 to 80 percent of the face value of the invoices. The factor assumes the risk and responsibilities of making collection. When the factor collects on the receivables, it takes out its fees and pays the balance to the business owner.

While the process can be expensive, it allows an entrepreneur to turn assets into cash in a few days, as opposed to waiting 30 days or longer for customers to pay.

Another plus is that the factor will "check out your client very thoroughly," says Nagel. "You don't have to worry about their creditworthiness." The key to being a

good candidate for factoring is to sell to solid companies that have good credit—or to the government.

Opening Doors To More Firms

Because financing decisions turn primarily on the creditworthiness of customers rather than that of your business, even a

Selling accounts receivable for a fee can be a valuable source of quick cash for growing companies.

Indeed, you don't have to be big. "If your revenues are in the \$10,000- to \$20,000-a-month range, you should be able to find factoring," says CFG's Eden.

Nagel explored alternative types of financing before settling on factoring. During the first couple of years, he funded growth with money from his personal



PHOTO: GUY STEWARDSON

The financing technique known as factoring helped fuel rapid expansion of *firstPro*, Inc., an Atlanta-based temporary-staffing firm owned by Phil Nagel, seated. With him are David R. Mattos, marketing vice president; recruiter Dori Jones; and Carolyn Withers, manager.

company in dire financial straits might be able to obtain money through factoring.

Factoring used to be confined to the textile and related industries, but the doors have opened wide to others.

"We see a tremendous growth in smaller factors who finance industries that the bigger players would never have considered," says Bruce H. Jones, deputy executive director of the Commercial Finance Association, a trade group based in New York City.

"The biggest players are banks, and they account for the lion's share of the roughly \$75 billion that is factored annually," says Jones. But he adds that "hundreds of small factors now finance companies ranging from florists to truckers. Any small business with solid customers can check in with a factor."

portfolio of assets. "But I have five children," he says, "and it was really starting to hurt me. I, as a stockholder, ran out of money to finance the business at the rate I wanted to grow it."

He had quite a few offers from private-placement specialists, he says. "I could have sold 10 percent to 40 percent of *firstPro*, but I wanted to keep all the stock."

Next, Nagel's personal banker recommended factors to him. He spoke with their representatives, checked references by calling some of their clients, and chose CFG.

In determining your costs, says Jones, a factor will consider not only the creditworthiness of your customers but also how long you've been in business and your company's history—for instance, whether it has a higher rate of returns than is com-

This story is part of a continuing series on ways for small companies to locate the financing they need to run their businesses.

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FINANCE

mon in its industry. The size of the transaction and the amount of administrative work it entails will be taken into account.

For example, the factor will want to check your inventory for collateral. The inventory can be examined more easily and at lower cost if it is all in one area rather than scattered throughout several states.

How The Charges Are Set

Factors use two different types of pricing, says Eden. The smaller your business, the more likely you are to be offered so-called discount pricing. "This is an all-inclusive fee for the credit, collections, costs of funds, and servicing," explains Eden. At CFG, the rate ranges from 2 percent to 7 percent of the invoice.

While some large businesses that use discount pricing might get the 2 percent rate, small firms usually are charged an initial fee of at least 3.5 to 4 percent. There typically are extra charges if an invoice is unpaid after 30 days.

For example, suppose your company is doing a volume of \$10,000 a month with a factor. The factor buys one of your invoices, of \$1,000, and advances you \$800. You might be charged 4 percent, or \$40, if the invoice is paid during the first 30 days, but if payment is not made until the second 30-day period, you might have to pay 2 percent more, making the charge \$60.

Under the second type of payment—the more traditional structure for factoring—the costs are divided into a commission for administrative services, credit, and collection, plus an annualized interest rate on the funds employed.

"For a business of 100 employees, you are probably going to see, on the low side, a commission in the range of 1 percent and an interest rate of prime plus 1 percent to

2 percent," says Eden. (The prime rate is the rate at which banks lend to their best customers.) "On the high side, you may see a commission rate of 2 percent and interest of prime plus 3 percent or 4 percent."

Using the same figures as in the discount-pricing example, your costs might work out this way: The factor charges a commission of 1 percent of the \$1,000 invoice plus an interest rate of 12 percent (prime plus 4 percent) on the \$800 advance. If the invoice is paid off in 60 days, the total cost is \$25.78.

Which pricing method would be cheaper for you depends on variables such as how fast your receivables turn, your volume, and other particulars of your contract.

Tips For Making A Choice

Factors are easy to find. "Any bank or CPA will recommend them," says Nagel. (See "Finding A Factor," below.)

In selecting a factor, avoid those that request application fees, advises Eden. When checking references, you may want to

talk to the factor's lenders and clients. Before signing, make sure the factor's fee structure and reports on payment activity are clear so you and your CPA or controller can audit the factor's numbers precisely.

CFG, for example, provides "accounts receivable agings"—reports on the amount of time that has passed since the customer was invoiced—and a daily "cash receipt journal" showing checks received by CFG.

As Nagel and many other business owners will attest, factoring can be a powerful source of immediate working capital for small firms facing a cash-flow crunch that threatens their potential for expansion. **NB**

Roberta Reynes is a free-lance writer in Spencertown, N.Y.

"Factoring allowed me to grow at a faster pace than would have been possible otherwise."

—Business Owner
Phil Nagel

Finding A Factor

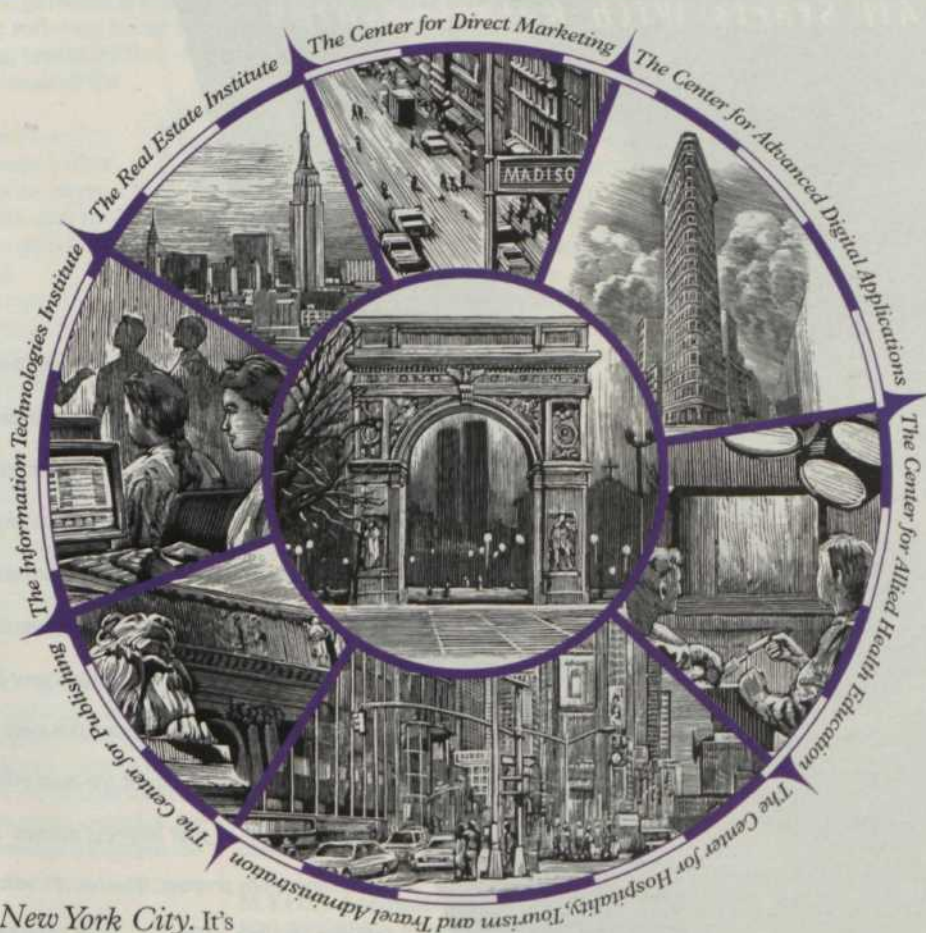
The Commercial Finance Association offers a free packet containing members' names, information on the industries and geographic areas they cover, and the size of transactions they handle. The CFA is at 225 West 34th St., Suite 1815, New York, N.Y. 10122; call (212) 594-3490.

The CFA's World Wide Web site, at www.cfa.com, also has a list of members. In addition, the site has a search feature;

you type in the amount of financing you'd like and your location, and the companies that might handle your business are listed.

The Commercial Finance Group's Web site, at www.commercialfinancegroup.com, has interactive spreadsheets that business owners can use to calculate what factoring might cost them. CFG offers a free educational audiotape, "Financing Options," which includes information on how to check a customer's credit. To order, call 1-888-240-4068 or send a request by electronic mail to tracy@cfgroup.net.

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Small Business Technology

Computer accounting products for small firms range from low-cost, basic programs to advanced systems for complex demands.

By Tim McCollum



ACCOUNTING SOFTWARE

Latest Software Crunches The Numbers

In many small firms, personal computers and accounting software bring relief from the ongoing headache that results from keeping track of the bottom line.

Savvy small-business owners and managers who once toiled ceaselessly over ledgers to reconcile orders, invoices, bills, and inventory now delegate much of this burden to their PCs.

More than 100 accounting-software products, ranging from basic bookkeeping programs to sophisticated packages that tie into every aspect of a business, are on the market.

Most of the products are designed for use by specific types of businesses such as medical offices, law firms, and transportation companies, while other software products can be used by firms with less specialized accounting practices.

Here are some of the most widely used accounting products suitable for small firms. The products include low-cost accounting software for firms with basic accounting needs and more-advanced systems for companies with complex accounting and other financial-operation demands.

Small-Office Systems

DacEasy Accounting (Sage U.S. Inc., 1-800-322-3279, www.daceasy.com). Sage's venerable DacEasy packages come with powerful accounting features for small but growing enterprises.

The standard DacEasy Accounting comes with core modules for keeping a general ledger, tracking fixed assets, banking, billing, purchasing, and inventory management. DacEasy Accounting & Payroll has a built-in payroll module.

In addition to these modules, Sage offers a number of add-on modules for tasks such as payroll, order entry, job management and job costing, and point-of-sale management.

The software also automates time-sensitive bookkeeping tasks such as closing out the company ledger at the end of the month and posting data from subsidiary ledgers to the general ledger.

It also lets users set dates for posting prepayments, accruals, and depreciation and for clearing audit-trail and product files.

DacEasy's fast search engine helps users get at accounting data and customer accounts quickly and efficiently because data can be entered or edited without a lengthy search. A re-

port generator provides templates for drafting financial reports, including a variety of charts.

DacEasy Accounting retails for \$129.95 per single-user version and \$259.95 per five-user DOS network version.

The DacEasy Accounting & Payroll package, which can be networked from a server, costs \$149.95.

M.Y.O.B. Accounting (BestWare Inc., 1-800-322-6962, www.bestware.com).

M.Y.O.B. Accounting provides solid accounting features in both single- and multiuser versions.

The single-user M.Y.O.B. Accounting Plus package recently was enhanced with a time-billing feature that helps companies track the time they spend on projects and automatically

generates invoices. Companies can use it to bill customers by the hour or portion of an hour, and it allows companies to price their services by activity, client, or employee.

M.Y.O.B. Accounting Plus can now be used over a computer network, allowing users to share accounting data. However, each user must have a separate copy of the software.

In addition to these new features, the Plus package has checkbook, general-ledger, accounts-receivable and -payable, inventory, job-tracking, payroll, and budget capabilities. It also provides more than 100 financial- and management-reporting templates and customizable forms.

M.Y.O.B. Premier is for companies that need to give more users access to accounting data over their network. It has the same features as the Plus version but it allows up to three people to use the system concurrently without having to purchase multiple copies of the software.

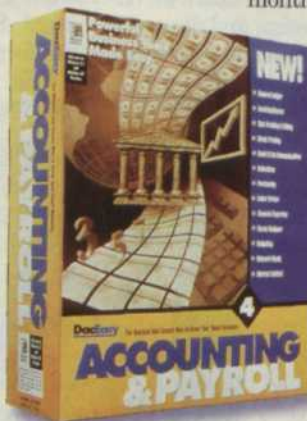
M.Y.O.B. Accounting Plus is available in retail stores or direct from BestWare for \$179 for the Windows version and \$199 for the Macintosh version.

M.Y.O.B. Premier costs \$449 for a three-user license. Additional licenses are \$99 each.

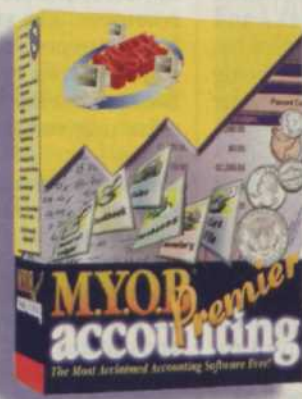
Peachtree Office Accounting (Peachtree Software Inc., 1-800-428-6957, www.peachtree.com).

Peachtree's Office Accounting software is built to work hand in hand with the Microsoft Office productivity suite, allowing users to work interchangeably with Excel, Word, and Outlook—an integrated electronic-mail program and information organizer.

Office Accounting is integrated with Office through the use of add-on programs that automate many financial and business tasks. With the programs, accounting data can be used for creating Word documents or Excel spreadsheets,



DacEasy Accounting & Payroll



M.Y.O.B. Premier

SMALL BUSINESS TECHNOLOGY

and electronic mail can be sent through the use of Outlook or Microsoft's Exchange messaging and collaboration software. The programs also can save documents to Outlook or Exchange folders so other employees can review and edit them.

Besides getting the capabilities of the add-on programs that come with Office Accounting, users can customize the software to fit their business needs by downloading additional add-ons from Peachtree's World Wide Web site.

Office Accounting comes with an array of helpful accounting capabilities for purposes such as check writing, invoicing, bill paying, business-trend analysis, budgeting, payroll, inventory, job tracking, and keeping a general ledger.

Peachtree has made it easier to use these features. Users can set up the software and enter initial company information by following a series of checklists. Then they can configure the software for their industry.

These features and their data are accessed through graphical navigational aids. Data-entry screens have been greatly simplified for faster entry of invoices and purchase orders.

And, like many small-business accounting programs, Office Accounting can disguise the accounting process, sparing users from dealing with accounting terminology. If they need the details, they can click an icon to get them.

Office Accounting retails for \$149.

QuickBooks (Intuit Inc., 1-800-446-8848, www.intuit.com). Intuit has built a large following for its QuickBooks and QuickBooks Pro accounting software because of the products' reputation for being solid and easy for small-business people to use. The software is noted for allowing people to keep up with their company's finances without having to understand accounting concepts. The latest version is the easiest yet to use and understand.



QuickBooks Pro

Users can click on-screen buttons to get help and instructions. Videos show how to complete many accounting tasks. QuickBooks also lets entrepreneurs customize their software and user interface to both their company's and the individual user's preferences.

To make accounting easier, QuickBooks' financial-register feature now closely resembles that of Intuit's Quicken software, with its simple checkbook metaphor. This gives users a clear picture of their incoming and outgoing transactions.

The products also have a new payroll feature that helps entrepreneurs set up new employees and calculate their paychecks. Intuit offers an on-line payroll-processing and direct-deposit service in conjunction with the product.

QuickBooks Pro, the network version of QuickBooks, includes support for multiple users working on a computer network, and its new features include time and billing management and a job-costing and -estimating calculator. To ensure security, QuickBooks Pro's audit-trail feature tracks changes in the accounting ledger made by individual users working on the system.

Both products give users access to an array of accounting and financial information from Intuit's site on the Web. Users can launch the product's built-in Microsoft Internet Explorer Web browser by clicking an on-screen button. The browser then automatically dials the user's Internet provider and connects to the Web site.

The Web site provides product support, software updates, a directory of financial advisers, and small-business information resources. The site's CashFinder service helps entrepreneurs find loans.

QuickBooks retails for \$119.95. QuickBooks Pro costs \$219.95 for a single user; a five-user version is available for \$599.95.

Simply Accounting (ACCPAC International Inc., 1-800-773-5445, www.accpac.com). Not to be outdone on the usability front, Simply Accounting features a simplified user interface, helpful accounting tools, and handy access to the Internet and desktop applications.

Simply Accounting enables business managers to work on their finances by using either general business terminology or a general accounting ledger. The product

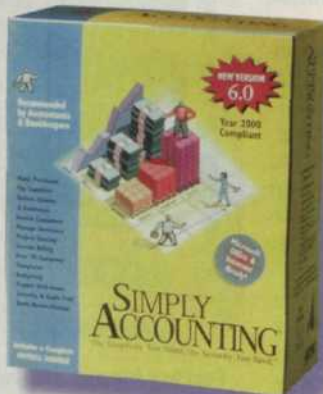
includes software "wizards" that lead users through setup and general accounting tasks. It also features more than 70 templates that allow companies to customize the software to their business and industry.

Accounting features include a general ledger, purchasing, accounts payable and receivable, inventory control, payroll, and project costing. The order-entry feature processes orders, creates estimates and quotes, and accepts credit-card payments.

Like M.Y.O.B. Accounting and Peachtree Office Accounting, Simply Accounting has links to Microsoft's Office suite, allowing users to create reports within Word documents and Excel spreadsheets. Users launch the appropriate Office application from within Simply Accounting when they want to generate a report or mail a document. Simply Accounting comes with 15 pre-formatted reports that transform accounting data into letters, price lists, and other standard documents, which are generated in Word or Excel.

Simply Accounting also has e-mail and Web capabilities that allow users to e-mail invoices and purchase orders to customers and suppliers, track shipments through the Web sites of Federal Express and United Parcel Service, and link to their business partners' Web sites.

Simply Accounting retails for \$119.



Simply Accounting

Advanced Systems

Dynamics (Great Plains Software Inc., 1-800-456-0025, www.greatplains.com). Dynamics is a powerful accounting solution for growing firms. The package is tailored to operate in Windows NT-based networks, allowing multiple users to connect to their company's financial-management system.

The latest version of Dynamics boasts a number of performance enhancements. It features two database engines for quick access to accounting data. The Dynamics Explorer search utility makes searches faster and easier by affording direct access to records and transaction data.

Dynamics has new technology that streamlines software installation and leads users through accounting data by posing interview-style questions similar to those asked in programs such as Quicken and QuickBooks.

Dynamics has added several new modules to standard modules such as a general ledger, accounts payable and receivable,

and inventory. The new modules cover human resources, payroll and direct deposit, bill-of-materials reporting for manufacturing firms, and a multidimensional tool for analyzing financial, sales, and purchase transactions.

In conjunction with Dynamics, Great Plains and IBM Corp. have created a hosting service aimed at small firms that don't want to manage Dynamics themselves. Instead, companies access Dynamics through a secure network maintained by IBM.

Dynamics modules are sold separately. Prices range from \$3,000 to \$10,000.

Navision Financials (Navision Software US, 1-800-552-8478, www.navision-us.com). This comprehensive, network-ready package provides management as well as accounting capabilities plus up-to-date conversions for foreign currencies.

Navision Financials has been enhanced with several new modules in addition to the previous standard accounting modules such as a general ledger, accounts receivable, accounts payable, and inventory management.

Unlike other advanced accounting systems, Navision doesn't require users to purchase an entire module to get specific capabilities.

A new capability for managing fixed assets lets companies account for the costs of maintaining and insuring assets such as equipment and facilities. A payroll function calculates payroll and tax payments and allows users to make direct deposits electronically.

Enhanced inventory- and order-management functions provide more-effective analysis of the sales process. Users can track inventory items by any unit of measurement. And they can reserve a specific item for a sales order so it can't be selected for a subsequent order.

In addition to the other new capabilities, Navision Financials now can convert a number of international currencies, including the euro.



Navision Financials

This feature allows companies to convert U.S. dollars to foreign currencies—and vice versa—for international trade. Companies can generate invoices and receive payments in any major currencies.

Pricing for Navision Financials starts at about \$2,000 for basic functions.

Other capabilities can be added for around \$350 each; entire modules cost \$2,000 each.

Solomon IV (Solomon Software Inc., 1-800-476-5666, www.solomon.com).

Solomon's powerful Solomon IV product has been released in separate versions, one designed for

Windows 95 and 98 and the other for the Windows NT BackOffice platform.

The standard Windows version features a database-management system that uses standard query language (SQL), the industry-standard data-manipulation language.

The system allows firms to build a financial-data repository that users can query and from which information can be retrieved over a network.

Solomon IV for BackOffice incorporates Microsoft's SQL Server database engine and the Windows NT operating system to provide a package that is even more functional.

Both products are offered with an array of financial- and distribution-management modules that can be purchased separately. Financial modules include a general ledger, accounts payable, accounts receivable, a cash manager, a currency manager, and financial-statement translation. Distribution modules handle inventory, order processing, and purchasing.

Solomon also offers Internet- and intranet-based modules. Users can create Web-based accounting applications using the WebTools module. The application server module processes reports over a firm's intranet.

Solomon IV comes with Seagate Software's Crystal Reports software, which lets users analyze data and create financial reports by clicking command buttons. Business managers can use Solomon IV's customization feature to create screens and integrate the software into their existing financial- and inventory-management systems.

Solomon IV for Windows costs \$300 for a three-user pack, with modules ranging from \$700 to \$1,900. Solomon IV for BackOffice costs \$1,295 for a three-user pack, and modules range from \$3,000 to \$8,000.



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Title _____

Annual Sales _____

Number of Employees _____ Year Established _____

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Type of Business (Check all that apply)

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Please describe the major challenges you faced or the opportunities you have created. These may include loss of a major client, rapid growth, employee turnover, product differentiation, unforeseen industry changes, natural disasters, etc.

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TECHNOLOGY

Going Digital Can Focus Marketing

By Tim McCollum

Even in notoriously rainy Seattle, Eric Lonergan's building tours rarely require an umbrella. The commercial-real-estate broker uses technology to take clients on whirlwind inspections of office space without leaving his office.

Lonergan and his colleagues at Leibsohn & Co. in the Seattle suburb of Bellevue have compiled a vast database of exterior and interior photos of local office buildings. When clients need to lease space, Lonergan doesn't waste time chauffeuring them around town to inspect buildings. Instead, he uses his notebook computer to tap into the database and bring the buildings to his clients.

Leibsohn & Co. is on the leading edge of the hottest extension of desktop publishing technology: digital photography. It enables small companies to create powerful, professional-looking marketing presentations in print or on the Internet using relatively inexpensive tools such as digital cameras, photo-editing software, image scanners, and color printers.

"Digital photography can have a dramatic impact," says Dennis Curtin, a photographer and author in Marblehead, Mass., who seeks to educate people about digital photography through his site on the World Wide Web (www.shortcourses.com), an online photography book.

"Companies used to have to rely on specialists like photographers, designers, and printers to create marketing pieces," Curtin says. "Now digital photography gives people the ability to experiment with photos until they get the right lighting and effects."

Curtin says entrepreneurs don't have to be graphics experts to use digital photography. Companies such as Adobe Systems Inc. in San Jose, Calif., and The LivePix Co. in San Francisco have developed low-cost photo-editing software that allows even novice users to create graphics-rich documents and Web pages from digital or conventional film pictures.

In addition, companies don't have to invest much in hardware to get started. A high-quality image scanner can be purchased for less than \$300. Many film-processing companies can digitize photos onto a standard diskette. Even digital cameras are affordable now, with basic models starting at around \$300. Higher-resolution cameras range from \$500 to nearly

\$20,000 for models used by professional photographers. (See "Tools For Creating A Sharper Image," Page 40.)

Early Entrants In The Field

Real-estate, insurance, and retail businesses have been among the pioneers of

A technology that's changing the face of photography is helping small firms create powerful presentations inexpensively.

ings on the Internet. The National Association of Realtors, based in Washington, D.C., says that 19 percent of home buyers use the Internet to shop for homes and that 16 percent of agents have Web pages.

"It's been a real boon for real-estate companies," Snygg says. "It's a very good application for companies that can quickly put pictures together and put them up on their Web site."

Leibsohn & Co. has been compiling its image database for more than three years. Agents and brokers use an Olympus digital camera to take pictures of building interiors and exteriors.

When they return to the office, they import the images into a personal computer and convert them to a high-resolution format using software supplied with the camera. They also save the images in a lower-resolution format for posting on the Web or for sending to clients via electronic mail.

Once the images are converted, they are cataloged and entered into the firm's database along with factual information about the buildings. Brokers can take the images and information and create documents using Publisher desktop publishing software from Microsoft Corp. in Redmond, Wash. Then they can send the documents to clients.

Lonergan says cataloging building images allows brokers to put together customized presentations for clients. Rather than having to create a presentation from scratch, brokers build a basic presentation by using hypertext links to pictures and descriptions of buildings that are most likely



PHOTO: DOUG WILSON—BLACK STAR

Digital photography enables Eric Lonergan to show his clients properties for lease without leaving his office.

using digital photography, says analyst Suzanne Snygg of Dataquest, a technology-research firm in San Jose.

Digital photography is particularly popular with real-estate companies, largely because it enables them to advertise list-

ings on the Internet. The National Association of Realtors, based in Washington, D.C., says that 19 percent of home buyers use the Internet to shop for homes and that 16 percent of agents have Web pages.

to meet the client's needs. The links tie into a master presentation of images and information stored on a CD-ROM.

These high-tech presentations help lease buildings, Lonergan says. Most of the firm's clients are employed by software companies and would rather look at photos than take a time-consuming tour.

"The expectation of clients has really changed a lot," Lonergan says, noting that many of the firm's competitors have started using digital photography as well. "Our challenge right now is to figure out how we can stay a couple of steps ahead of the competition."

A Tool For The Low-Tech

Not only high-tech clients are impressed by digital photography, however. In Louisville, Ky., music producer Simeon Amburgey uses digital photos to promote the Christian music performers he works with at his firm, Sound Creations Inc.

Amburgey's two-year-old company produces, arranges, and promotes recordings and puts together concerts for Christian musicians and for local churches. Digital photos help him create marketing materials for his clients such as letterheads, business cards, fliers, and CD inserts.

Amburgey began working with digital photographs last year when he bought an inkjet printer, which came with a trial version of Adobe's PhotoDeluxe photo-editing software. Unlike Adobe's Photoshop and other photo-editing software that is designed for graphics professionals, PhotoDeluxe is intended for novices such as Amburgey. The software includes dozens of templates for creating various types of materials.

For several weeks, Amburgey worked with PhotoDeluxe in his spare time, and he quickly became impressed with how easily he could turn photos into creative materials. Seeing an opportunity to put photos to work in his business, Amburgey volunteered to test a new version of PhotoDeluxe that has templates and other features designed for business users.

Amburgey liked what he saw and made the software part of his business. He uses it to create prototype designs that will later be produced by a design firm. It sure beats pasting photos onto rough design layouts sketched on paper and then running them

through a copier, as he did before. Amburgey takes photos made with a standard 35 mm film camera and scans them into his PC. In addition, he often has his film processors digitize his photos and save them onto a diskette.

Once the photos are on his PC, Amburgey uses PhotoDeluxe to touch up the on-screen images, adjust the colors and brightness, enlarge or reduce the image sizes, and create special effects. Then he electronically pastes the adjusted images into one of the software's project templates.

Amburgey says the software lets him create designs that make him look good to clients and his graphic designer yet don't take much effort. "I'm working with a professional product, but it's something that an average user is able to do," he says.

Having a well-produced prototype al-

people to share photos with others. "The Web really opens things up for small companies because you can have photos up on your Web site very quickly," says photographer and author Curtin. "With some of the Web-design software, it's just a matter of pasting an image into a document."

As such, the Web can turn a business into an instant publisher. One only has to look at Curtin's Web site to see the possibilities of digital photography on the Internet.

Curtin started his site as a means of gathering feedback for a how-to book on digital photography. The site soon was getting more than 30,000 visits a month. "I got such a response that I decided not to write the traditional book and to just concentrate on building this Web site," Curtin says. He has posted 12 chapters on the site, complete with text and photo images that

demonstrate how to use digital cameras and photo-editing software. Visitors can read each chapter at no charge by clicking on hypertext links that lead to each chapter.

Curtin says digital photography is radically changing the photography industry, as both camera companies and computer companies are coming out with hardware and software products. Dataquest reports that 1.9 million digital cameras were sold in 1997.

The quality and capabilities of digital cameras are improving. Curtin says the quality of digital images still pales in comparison with the quality of images taken by a good film camera, but he notes that consumers often receive poor-quality prints from film-processing companies. With digital cameras, users can preview their pictures when they take them and delete the bad ones.

Dataquest analyst Snygg says there is a big difference between the quality of images taken with low-cost digital cameras aimed at the con-

sumer market and those taken with more-expensive models that use megapixel technology. She says the consumer cameras take low-resolution images that work well on a Web site but don't look as good in printed form or in computer-based presentations.

On the other hand, megapixel cameras take higher-resolution images. When these cameras are coupled with a color inkjet printer with photorealistic capabilities, Snygg says, users can print photos that are good enough for newsletters, fliers, and de-



PHOTO: SPAT MCDONOUGH

Using photo-editing software, music producer and promoter Simeon Amburgey designs creative marketing materials for his clients.

lows his artists to visualize the finished product. "It excites them and lets them know things are going well," he says.

The Influence Of The Web

Amburgey himself is excited about the possibility of using digital photos to promote his clients to people browsing the Web. Indeed, the Web has had a tremendous impact on the growth of digital photography.

Companies and individuals have found that photos add visual appeal to their Web sites. The Web also provides a way for

TECHNOLOGY

sign prototypes. But Snygg says most people are better off pairing a film camera with a scanner or having their photos developed by a professional lab than investing in the higher-end cameras.

She says people will be able to buy the better cameras at lower prices in

the next year or two. "Right now the digital camera is a PC peripheral rather than a consumer product," Snygg says. "PC users probably expect to upgrade to a better camera. Consumers, though, expect a greater life span from their camera, so they'll want to wait."

Small companies don't have to wait for cheaper digital cameras to reap the benefits of digital photography, however. They already have low-cost tools at their disposal that enable them to use photos to create presentations that impress customers and win business. **1B**

Tools For Creating A Sharper Image

Small firms don't have to invest a fortune to begin reaping the substantial benefits of digital photography. After obtaining a relatively inexpensive combination of equipment, software, and services, they can immediately start adding photos to their business brochures, business cards, and Internet sites.

A basic "digital darkroom" consists of a robust personal computer capable of handling large graphical files and photo-editing software.

For those who can afford to invest somewhat more money, additional useful tools include a digital camera, a high-quality color scanner, desktop publishing software, and software for designing World Wide Web sites.

Following are some handy products for putting digital photos to work for your company.

Photo-Editing Software

LivePix SOHO (The LivePix Co., 1-800-727-1621, www.livepix.com, \$49.95). LivePix SOHO is loaded with features for creating business graphics with photos in a small-office or home-office environment.

The software comes with tools for automatically correcting the color and contrast of images. It also features business-oriented publication templates based on stock photos that can be combined with the user's own photos.

LivePix SOHO is packaged with special paper for printing great-looking photos on a color inkjet printer and multimedia electronic-mail software for sending photo-based messages via the Internet.

PhotoDeluxe Business Edition (Adobe Systems Inc., 1-800-888-6293, www.adobe.com, \$79). Adobe's PhotoDeluxe Business Edition lets even novices turn their photos into professional-looking graphics.

The software allows users to adjust the color, brightness, size, and resolution of

photos, edit them to remove imperfections, and add visual elements that were not present in the original. Users can then follow guided instructions to insert the tweaked images into business cards, fliers, letterheads, and Web pages.

PhotoDraw 2000 (Microsoft Corp., 1-800-426-9400, www.microsoft.com, \$149). Microsoft's current entry in the photo-editing field is PhotoDraw 2000,



which combines photo-editing and desktop publishing capabilities.

PhotoDraw comes with more than 300 templates for transforming photos into business cards, calendars, fliers, invitations, and other materials.

The software leads users step by step through a project. And it works in concert with Microsoft Office to allow users to easily insert photos into Word documents, Excel spreadsheets, PowerPoint presentations, e-mail, and Web pages.

Digital Cameras

D-340L (Olympus America Inc., 1-888-553-4448, www.olympus.com, \$499). Companies don't even need a PC to make the most of Olympus' D-340L camera. Instead, they can view photos on a

television using a port built in to the camera. The D-340L has features that are comparable to those of film cameras, including an auto-focus lens, wide-angle and telephoto capabilities, a flash that adjusts automatically to lighting conditions, and the ability to take shots in succession without the delays that are typical in digital cameras.

The D-340L can take high-resolution photos (up to 1,280 by 960 pixels) and save them on a 4-megabyte (MB) removable card that can be connected to a PC for downloading the saved images.

Mavica MVC-FD71 (Sony Electronics Inc., 1-800-222-7669, www.sony.com, \$799). Sony's Mavica digital cameras make it simple to take photos and move them to a PC because they save up to 40 images of 640 by 480 pixels onto a standard diskette.

The MVC-FD71 model comes with an intelligent flash capability that automatically turns on in low light, a zoom lens with auto focus, and a 2.5-inch color viewfinder that is solar-powered, which increases battery life.

PhotoPC 700 (Epson America Inc., 1-800-463-7766, www.epson.com, \$699). Epson's PhotoPC 700 camera is designed to enhance the relationship between digital photos and the user's PC. The camera connects directly to a computer and multimedia projector, allowing users to present images directly from the camera.

This is possible because the PhotoPC 700 has 4MB of internal memory, enough to store up to 50 standard-resolution images. Moreover, the camera can take high-resolution pictures (up to 1,280 by 960 pixels).

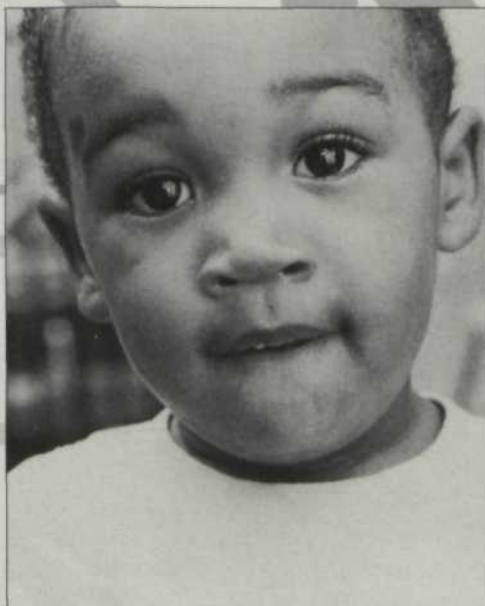
PowerShot A5 (Canon Computer Systems Inc., 1-800-652-2666, www.powershot.com, \$699). This compact, point-and-shoot camera is perfect for novice photographers. The 8.1-ounce camera has a 2-inch color viewfinder and a feature that guides users through the process of shooting multiple panoramic shots and stitching them together into a single image. Despite its simplicity, the PowerShot A5 can take high-resolution photos (up to 1,024 by 768 pixels).

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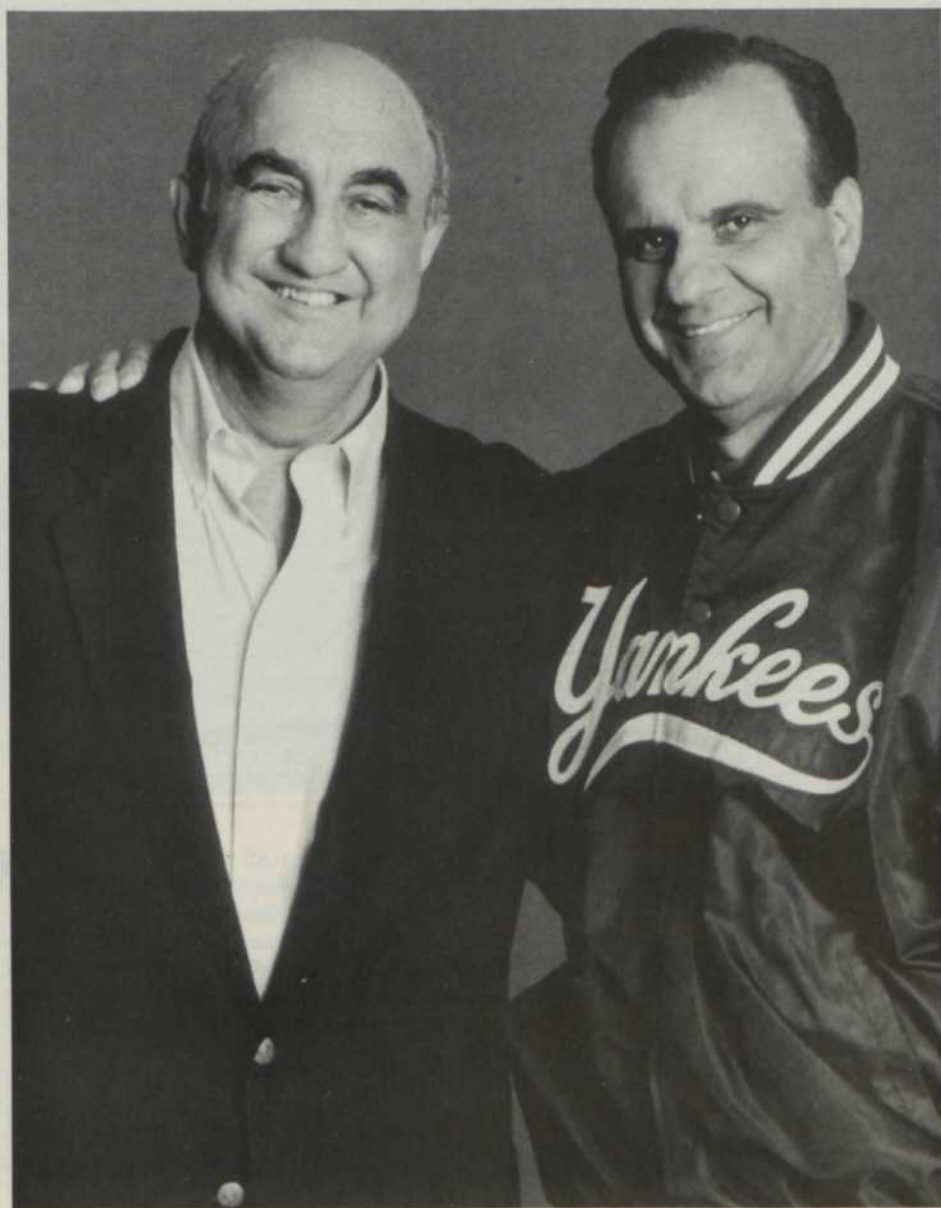
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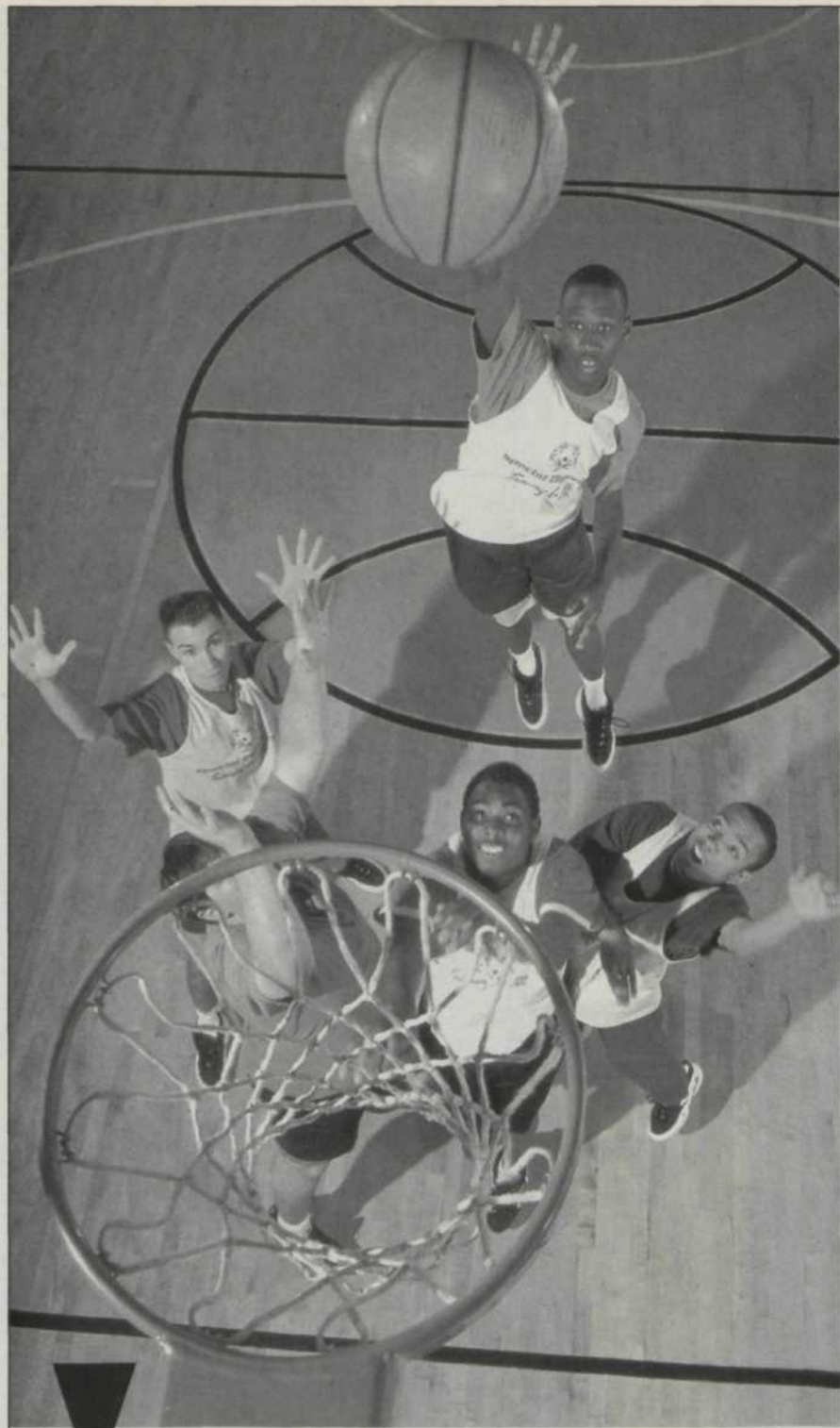
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Joe Torre, New York Yankee Manager

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MANAGING

SCORE's Impact On Small Firms

By J. Tol Broome Jr.

Some of the best advice available to start-ups and established businesses alike costs little or nothing. It's delivered by volunteers with the Service Corps of Retired Executives.

SCORE is a nonprofit association founded in 1964 by the U.S. Small Business Administration. The SBA, which provides funding for SCORE, created the association to provide entrepreneurs education and assistance in starting and growing their small businesses.

SCORE consists of a network of 389 chapters and more than 12,000 retired and active business owners and executives who serve as volunteer counselors, and it helps more than 300,000 entrepreneurs a year.

Although the group's forte is one-to-one counseling, SCORE also offers mentoring, workshops, and "cyber-counseling" via electronic mail.

The counseling is free, but SCORE charges low fees—usually \$100 or less—for its seminars and workshops. The fees cover expenses such as facilities charges and the costs of materials.

Ken Yancey, SCORE's executive director, says he frequently hears from volunteer counselors about individual success stories among the organization's many clients.

For the organization's counselors, Yancey says, "there seems to be no recognition greater than seeing a business succeed and knowing that you had something to do with helping make it happen."

Following are accounts of three of those

business successes in which SCORE counselors had a hand:

Coffee In Charlottesville

The Mudhouse Cafe in Charlottesville, Va., is one of the city's most frequented downtown establishments, offering a menu that features gourmet coffees and fresh pastries. And while owners Lynelle and John

Entrepreneurs nationwide owe their start-ups' origins and early survival to expert counseling provided by the Service Corps of Retired Executives.

restaurant: "We wanted to get a better sense of how the town would support us."

As the Lawrences moved toward their goal of opening a coffee cafe, a friend referred them to SCORE. There they met Joe Geller, who had extensive experience working in and owning restaurants as well as bed-and-breakfasts.

"We met with Joe and talked about the

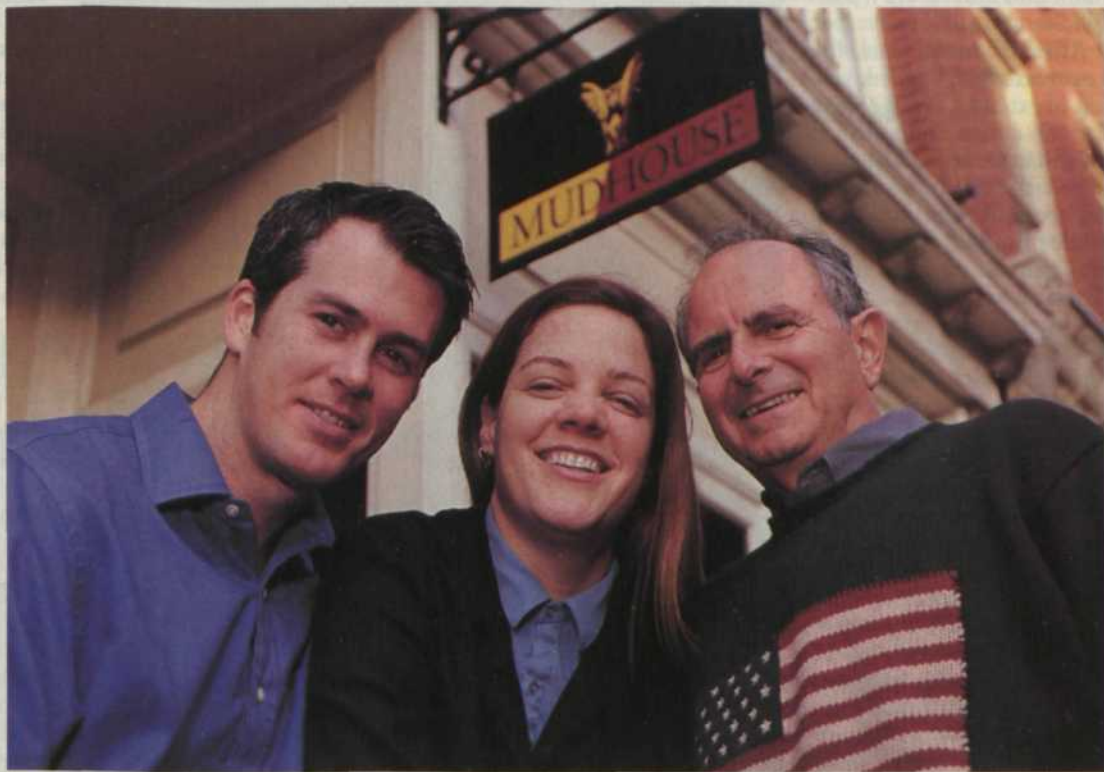


PHOTO: T. MICHAEL KEZA

After a friend referred John and Lynelle Lawrence to SCORE, counselor Joe Geller, right, helped the couple through each stage of preparation for—then operation of—their cafe in Charlottesville, Va.

Lawrence, both 33, now earn a nice living from their business venture, there was a time when its viability was in doubt.

The Lawrences moved back to their home state of Virginia from Alaska in 1991. For three years, while working in Charlottesville, they did research on their dream of opening their own coffeehouse.

In 1994, the Lawrences got an \$8,500 bank loan to purchase a cart for selling coffee in a downtown mall area. Says Lynelle, who worked the cart during the day while John waited tables at a local

basics," explains Lynelle Lawrence. "We emphasized the need to keep our discussion confidential. He let us talk about the idea. It was apparent that he wanted us to make sure we were as committed to our business as he was to helping us."

First, Geller referred the prospective business owners to SCORE seminars titled "Getting Started" and "Tax Issues." Dozens of meetings with Geller followed. "Joe kept us focused and kept our morale up as we planned our shop," says Lawrence.

Geller helped the couple prepare a de-

J. Tol Broome Jr., a credit-risk manager for a Greensboro, N.C., bank, writes on financial matters.

MANAGING

tailed business plan, including market research, demographics, résumés, and financial projections, and then directed them in their effort to obtain financing.

"Joe knew a lot of people in town," says Lawrence. "He set us up with a local banker for an advisory meeting. The banker advised us to go to the more conservative banks first to practice on them."

The "practice" helped, but as the rejections piled up, the Lawrences became discouraged. "All admitted we had done our homework, but the banks pointed to a 96 percent restaurant failure rate and turned us down," Lawrence says. "We would call Joe and ask what was going on. He would encourage us to talk with another bank and stayed very positive."

After six turndowns, the Lawrences found a bank willing to extend a \$60,000 loan for the coffee shop, and it opened in October 1995.

But that didn't end the Lawrences' contact with Geller. In fact, they say, it was almost daily contact. "Even as we opened, I would hit burnout working 16 to 18 hours per day," says Lawrence. "Joe continued to remind us to get rest. He would even come in and wash our dishes in the back. He also reminded us not to compromise what we needed for salaries. With his business background, we had a great deal of respect for him."

Lawrence says the coffee shop, which now employs 12 people, has become quite successful. The Mudhouse Cafe includes an upstairs "smart-room," a room wired for Internet connections for laptop computers and videoconferencing. The upstairs cyber-cafe has quickly caught on with students and faculty members at the University of Virginia.

Geller continues to give the couple business advice. "There is no way we would be here without SCORE and Joe Geller," says Lawrence.

Pet Care in Raleigh

The business that Ellen Kruskie wanted to launch back in May 1993, when she attended a SCORE workshop titled "How To Start And Stay In Business," could be called unusual. She planned to open a

boutique in Raleigh, N.C., for do-it-yourself pet washing and pet accessories, and she knew she needed help.

Her idea had been spurred by a personal need. Kruskie owned a springer-spaniel and beagle mix that she says was "a mess and a real backbreaker to wash."

A victim of corporate downsizing, Kruskie was ready to be her own boss. Tapping into experience gained while helping start a small biotechnology firm in

SCORE counselors to put the plan through a financial test. Says Kruskie: "Of course, the counselors weren't familiar with the business concept. Still, they provided valuable input and indicated that my business plan was sound."

Kruskie opened her business, Carolina PetSpace, in August 1994, and her faith in the concept was quickly rewarded. The business tallied \$150,000 in sales during its first 12 months of operation.

Six months after opening her shop, Kruskie got an opportunity to buy an ancillary business that distributed pet supplies. Again, she turned to SCORE for assistance. She was referred to counselor Don Buckingham, who had extensive experience in buying and selling small companies.

"Don helped me think through different issues, such as product liability, that I had either glossed over or not thought of," Kruskie says. "We did some research and found that it was not a good idea. He saved me a lot of aggravation."

Buckingham continued to work with her, helping her with accounting, budget preparation, advertising, and public relations. "Don would help me stay focused by being an objective devil's advocate," she says, and he remained a valued adviser. His death in September 1997 "was hard on me," Kruskie says. "He was a very, very unique man."

Computers In Flagstaff

After retiring from the Air Force in 1984, Dan Adamovich worked as an engineer at McDonnell Douglas. Then he left in 1996 to start his own business—though he wasn't sure what kind. Armed with a doctorate in management and enough life's savings to meet the capital requirement for starting a small firm, he decided to explore opportunities

in restaurant franchises.

Adamovich, now 51, was then living in St. Louis but looking west. "I started considering one particular franchise possibility in Colorado Springs," a city with a business climate that he liked. "That's when I came across SCORE in Colorado and an electronic-mail address," he says.

For the next several months, Adamovich obtained cyber-advice from SCORE counselor Erv Simon, who, like Adamovich, is a former Air Force pilot. Via e-mail, Simon



PHOTO: COULANE HALL

SCORE counselors helped Ellen Kruskie determine that the business plan for her do-it-yourself pet-washing business was sound.

Boston in the early 1980s, Kruskie had prepared a business plan. It included information on the business idea and corresponding financial projections. It also included demographic data on Raleigh and extensive information on the pet industry.

"I had an idea of what I wanted to do before the seminar," says Kruskie, 51. "But the workshop put things in order for me."

After reviewing her business plan to include ideas she had gained at the workshop, Kruskie solicited the services of two

considered Adamovich's franchise and provided demographic and other information.

SCORE's e-mail counseling service has been available since June 1996. Simon is one of 400 counselors providing advice through SCORE's site on the World Wide Web. "We've been contacting people in all walks of life who wouldn't be walking into SCORE offices," he says. "I've worked with some people located 150 miles from the nearest SCORE office."

In November 1996, Adamovich and his wife, Vickie, traveled to Colorado Springs to meet with Simon and SCORE counselor Walter DeMoss, a former restaurateur. "They convinced me that a restaurant was not the right business," Adamovich says. "Walter asked me about my hobbies and background and convinced me to go with something I knew more about."

With Simon's help, Adamovich began to focus his franchise research in his areas of interest—computers, electronics, and mechanical-repair work.

In December 1996, Adamovich attended an informational meeting for Computer Renaissance, a franchise that buys, refurbishes, and sells used computers, and he decided "that was what I wanted to pursue." The company's Colorado Springs franchise was taken, so the Adamoviches set-

tled on Flagstaff, Ariz. Simon gave advice on approaching a bank for a line of credit, providing hints, for example, on "the right terms" to use in dealing with the bank.

The store opened in May 1997, and its

The advice and help from SCORE counselor Erv Simon "has been invaluable. I was running around like a chicken with my head cut off until Erv got me pointed in the right direction."

—Dan Adamovich,
Owner of a Computer Renaissance
Store in Flagstaff, Ariz.

volume of business has far exceeded projections, reaching \$800,000 in revenue during the first year.

Adamovich, who still seeks Simon's management advice, says Simon's help "has been invaluable. I was running around like

a chicken with my head cut off until Erv got me pointed in the right direction."

Says Simon, who recently visited the store: "Dan picked this business on his own. We helped lead him to pick something he loved to do."

Yancey, SCORE's executive director, says the organization succeeds because "we try to adapt to the needs of our clients"—for example, by offering counseling via the Internet—and because of the dedication of SCORE volunteers. "Our counselors are the backbone of SCORE," he says.

Kruskie regards the organization as a key to her success with Carolina PetSpace. "I can't stress strongly enough how much the seminar helped," she says. "I still refer back to the handouts and [the] notes I took."

"What is really quite amazing," she adds, "is the dedication of the counselors. I wish more people knew about SCORE." ■

For More Information

To learn more about SCORE, visit the organization's site on the Web, at www.score.org. You can also call 1-800-634-0245 to find the SCORE counseling location nearest you.

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Collecting Payments Due

By Janine Latus Musick

Aimee Fitzgerald, a consultant specializing in public relations and corporate communications, once traveled on business for a company that subsequently refused to cover agreed-upon travel expenses.

"I sent letters," she says. "I made unbelievable numbers of phone calls. I went over and sat in their lobby for hours on end. But I couldn't get a response. I don't know what their logic was."

Fitzgerald, who works for Fagan Business Communications in Englewood, Colo., eventually got paid by persistently directing her inquiries farther up the chain of command, but it cost her time that she could have spent more productively.

No doubt, many of the 10.5 million self-employed people and 23.6 million sole proprietorships in this country have struggled at one time or another to get paid for their work. And according to Anita Drummond of the U.S. Small Business Administration's Office of Advocacy, it's a safe bet that uncollected receivables contribute to the deaths of many of the 25 percent of businesses that don't survive their first two years.

Although every business sooner or later encounters customers or clients who don't pay, you can cut your percentage of accounts overdue and improve the odds that you'll be one of those rare firms that collect every dollar they're owed if you create the right environment from the start. Here are some tips drawn from business owners' experiences:

Agreements In Writing

First, write a letter of agreement for each customer and ask the customers to sign it. The letter should stipulate what you will do, when you will do it, and how much and when you will be paid, says Janet Attard, author of *The Home Office and Small Business Answer Book* (Henry Holt, \$19.95) and manager of the Business Know-How forum on America Online.

A lot of small-business owners are so eager for work that they agree to do a job without even talking about payment. But they shouldn't. While it may feel awkward to insist on putting your work-

ing relationship in writing, you're in business to make money, and legitimate clients understand that.

Fitzgerald learned a lot from her lobby-sitting experience. Now she insists on a

written payment agreement before she starts work. "I find that when you bring that up from the beginning, you weed out the businesses that are serious and can do this and those who can't," she says. "And



While every business will encounter customers who don't pay, you can cut your percentage of accounts overdue by creating the right environment from the start.

it's best to find out upfront rather than spend time chasing down payment later."

Depending on your business, you often can get some of your payment in advance or at least get partial payments as you go along.

Jane Conner of Whitefish, Mont., who ran the Whitefish Gymnastics Club for 16 years, insisted that clients pay for their 10-week sessions at the end of the first class. "That way, I collected when enthusiasm was high, I only had to collect once, and I was able to balance my budget with the actual money on hand," she says.

Prepayment works well for firms that provide a tangible product or service, such as printing. Attard says firms that provide long-term services, such as consulting or computer programming, might try contracting for one-third of the payment at the outset, another third at some milestone in the project, and the final third within 10 days of delivery.

If you budget so that your own costs are covered by the earlier payments, you won't have to scrape together cash to pay employees or suppliers if the final payment is delayed, Attard says.

"Companies aren't likely to stall on that second payment because they know you're not going to continue on the project until you get paid," she says.

Whatever your agreement, make sure your invoices are numbered, sent promptly, and delivered to the right person. An invoice sent to someone other than the person who pays the bills may have to be rerouted and can be misplaced or set aside. An unnumbered invoice can be harder to track.

Service businesses such as carpet cleaners and lawn-care companies can cut billing costs and their number of nonpaying customers by asking customers for a credit-card number at the start.

Keep in mind, though, that businesses that accept credit cards pay a percentage of each sale to the credit-card company. "Look at the percentage you're paying and the percentage of bad debt you're writing off and decide what's better for you," says Ronald Silberstein, a partner in Hirsch Silberstein & Subelsky, an accounting firm in Farmington Hills, Mich.

Incentives And Reminders

Experience and a little industry networking can tell you how long it will take a

client to pay. In most industries, it averages 30 days.

Sometimes you can shorten that time by giving a small percentage discount for payments made within, say, 15 days. This strategy is often more effective at encouraging timely payment and a cooperative rapport with clients than is a policy of charging late fees.

Another way to promote timely payment is to charge interest on overdue accounts. Silberstein's company, for example, adds 18 percent annual interest to tardy

How To Use Small-Claims Court

You can sue in small-claims court if the amount owed to you falls within the limit allowed, which ranges from \$1,500 to \$25,000, depending on the state or sometimes the county. Call your county court clerk's office for information.

First, however, you should call the client to see if you can get paid without going to court, says Fred Steingold, author of *The Legal Guide for Starting and Running a Small Business*. If the answer is no, follow up with a demand letter in which you state your claim, demand payment, and again tell your client that you will sue if you are not paid promptly.

Even though the client already knows the facts, restate them. You can use the demand letter to show a judge that you made every reasonable effort to collect the bill.

"Definitely send reminder letters first," Steingold says. "Even though small-claims court is simple, it's a lot more difficult than just writing some letters."

Also consider following up with a phone call. "Sometimes people think their bill will be overlooked, that maybe you're not going to pursue them," Steingold says. "So sometimes just the personal contact of a phone call creates a certain amount of embarrassment, so they say they'll take care of that right away."

If you decide to go to small-claims court, you're not likely to need a lawyer. In fact, lawyers are not permitted in some small-claims courts. Typically, the county court

clerk's office will help you if you have questions.

Sonsie Conroy of San Luis Obispo, Calif.—whose business, Catalyst Communication Arts, provides editing, indexing, advertising, and public-relations services—has sued nonpaying clients in small-claims court four times and collected each time. "In California it costs less than \$20," she says. "It's a one-page form that takes five to 10 minutes to fill out, then you file it with the county clerk, and [the county clerk serves] the other party for you. They schedule you for a court date, usually within four to six weeks of when you file. The court case takes less than 15 minutes, and you have a judgment that very day."

It's advisable to take your paper trail to court with you. A written agreement or contract is best, but notes from telephone conversations, photographs or examples of completed work, invoices, and a copy of your demand letter are also valuable. You generally don't have to have a written contract to make a case.

The bad news is that many people who win in small-claims court still can't collect their money and are forced to go through another round in small-claims court to get the client to cough up. Often, however, just the threat of a formal suit loosens people's purse strings. As Conroy says, "There's something about the idea of taking legal action that motivates people to pay their bills."

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The Supreme Court's message: Put your policy in writing, communicate it to every employee, and follow up on complaints.

Sizing Up The Megabanks 4871

Small-business owners are uneasy with the wave of mergers in the financial-services industry, but there are ways for them to restore solid banking relationships.

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payments. The firm waives the interest charges for clients that make good-faith efforts to pay, Silberstein says.

Once an account is past due, companies that haven't been paid can employ various tactics. Fred Steingold, a business lawyer in Ann Arbor, Mich., and the author of *The Legal Guide for Starting and Running a Small Business* (Nolo Press, \$24.95), says companies that are owed should create a series of increasingly urgent reminders insisting on payment. Past-due notices should be sent promptly and should ask clearly for payment, he says.

Les Clark, president of The Credit Recovery Co. Inc., a Woburn, Mass., collection agency, says companies should take a somewhat different approach. He says one friendly reminder letter after the original bill is enough, and then it's time for the next step.

"You don't send out 15 more bills," he says. "You may send out a second bill and say, 'Gee, we haven't heard from you,' and then you specify a payment date that's maybe 10 days to two weeks later. If you don't get something then, you're on the phone. But most firms, because it's easier to do, send out bill after bill after bill."

Bob Ragland, owner of a ServiceMaster franchise in Columbia, Mo., files a lien against the property of clients who fall 90 days in arrears. That way Ragland—whose business does home cleaning and post-disaster repair—is almost sure to be paid eventually, and usually just the threat of a lien is enough to make people pay up.

Such tactics are rarely necessary, he says, because he bills quickly—within 48 hours of providing a service—and follows up with both a letter and a phone call if he's not paid within 30 days.

The Final Steps

If your firm is owed payment on a number of past-due bills, consider turning them over to a collection agency. But remember that the agency will keep from one-third to one-half of the amount collected. Some agencies also charge their

clients for small-claims-court costs if the collection process goes that far.

Clark of The Credit Recovery Co. recommends that companies turn their accounts over to a collection agency immediately if the customer's phone has been cut off or its mail is being returned. Collection agents can trace creditors if they relocate, says Clark.

Finally, there is the option of taking a deadbeat client to small-claims court if the amount owed is at or under your state's small-claims



limit, which can range from \$1,500 (Kentucky and Rhode Island) to \$25,000 (Tennessee counties with populations over 700,000). (See "How To Use Small-Claims Court," Page 45.) You also have the option of regular court if your claim is higher than the small-claims ceiling.

Whatever your industry, you may encounter clients who don't pay their bills. It's up to you to decide whether it's more cost-effective to pursue the payment or just give up.

"Trying to collect all of it might be satisfying in terms of getting even, but it eats up a tremendous amount of time and effort," Attard says. "You have to ask yourself [whether it's] worth continuing to go after this person just to satisfy yourself, and when do you let it go and just get on with your business."

Accountant Silberstein disagrees: "I don't think any business should expect to be writing off any bills. We're entitled to be paid for what we do."

Janine Latus Musick is a free-lance writer in Columbia, Mo.

Book Review

An in-depth analysis of U.S. steps against other nations leads to a better understanding of this foreign-policy tool.

By Robert T. Gray

The Costly Backlash From Economic Sanctions

Economic sanctions expressing the United States' displeasure with actions and policies of other nations exacted a cost of \$15 billion to \$19 billion in lost business and wages for one country alone in 1995.

Unfortunately, that country was the United States.

Self-inflicted damage and other potential consequences of sanctions as an instrument of U.S. foreign policy are explored in *Economic Sanctions and American Diplomacy* (Council on Foreign Relations Press, \$17.95).

This highly informative book deals with a complex, controversial subject through case histories of the use of sanctions against China, Cuba, Haiti, Iran, Iraq, Libya, Pakistan, and the former Yugoslavia.

These reports, written by specialists on the respective countries, provide a base for the book's description of the lessons that can be derived from the application of the specific sanctions and for its recommended guidelines for making better-informed decisions on whether to impose sanctions.

The recommendations and additional commentary are offered by the book's editor, Richard N. Haass, director of foreign-policy studies at the Brookings Institution, a Washington, D.C.-based organization that does research on U.S. government policies. In addition, Haass formerly held positions as special assistant to President Bush, National Security Council staff director for Near East and South Asian affairs, and director of national-security programs and senior fellow at the Council on Foreign Relations, a private organization in New York City that works to foster American understanding of other nations.

The use of sanctions deserves greatly increased scrutiny, Haass writes, because "they are fast becoming the policy tool of choice for the United States in the post-Cold War World," with punitive measures in effect against dozens of countries.

Sanctions, he notes, include arms embargoes, foreign-assistance reductions and cutoffs, trade limitations, asset blockages and freezes, tariff increases, import-quota decreases, revocation of a country's normal

trade-relations status with the U.S., diplomatic-relations withdrawals, visa denials, air-link cancellations, and credit, financing, and investment prohibitions.

The book covers use of such penalties to prevent proliferation of mass-destruction weapons, human-rights violations, support of terrorism, drug trafficking, aggression, environmental degradation, and continuation of governments hostile to the United States.

The case histories demonstrate, the editor says, that sanctions alone are unlikely to achieve desired results if the aims are large or the time is short; that they can be expensive for American businesses, farmers, and workers; that the authoritarian, controlled-economy societies that sanctions usually target often can hunker down and withstand the effects; that sanctions often fall hardest on the people of the targeted countries, not the ruling elites responsible for the sanctions' imposition; and that unilateral sanctions are rarely effective.

The book is by no means a blanket rejection of sanctions but is a call for far greater understanding of their impact and their limits.

The United States, Haass says, has used sanctions too casually. The author wants political leaders to abandon the idea that sanctions are a benign substitute for military action.

Economic sanctions, he says, "are a serious instrument of foreign policy," and the executive branch should be required to justify their use under procedures similar

to those specified in the War Powers Act for military actions.

"Sanctions are a form of intervention," Haass says. "Depending on how they are used, they can cause great damage to innocent men, women, and children. They also can cause great harm to U.S. business, workers, and foreign policy. ... Foreign policy is not therapy, and its purpose is not to feel good but to do good. The same holds for sanctions."

It is often difficult for those aware of the flaws of sanctions to challenge them without being accused of supporting the belligerent, repressive, or destructive policies that triggered the punitive action.

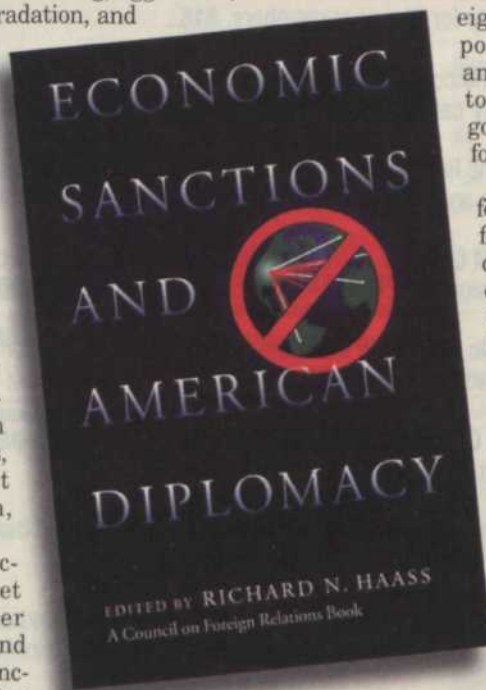
Economic Sanctions and American Diplomacy is a valuable resource for business people in this debate. It offers solid documentation for the case that sanctions, however

well-intended, rarely achieve their goals and can have undesirable consequences for the United States and for the people of the target countries.

The book has a reader-friendly structure, with separate components of overview, case histories, and lessons and recommendations. That provides a smooth passage through a highly complex subject.

A principal merit of this timely publication is that, unlike much of the current discussions on sanctions, it is solution-oriented, not problem-oriented.

Economic Sanctions and American Diplomacy is a major contribution to a greater understanding of what really occurs at a critical junction of foreign policy and U.S. business interests.



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Where I Stand

On The Economy

Although the U.S. economy is strong now, most economists expect it to weaken in 1999, partly because of economic events abroad. (See the Cover Story, Page 16.) These questions seek your views on changing economic conditions and how they might affect your business.

1 Do you think the U.S. economy will grow stronger during 1999, get weaker, or stay about the same?

1. Stronger
2. Weaker
3. About the same

2 Do you think the U.S. economy is headed for a recession (two consecutive quarters of negative growth in the gross domestic product)?

1. Yes, in 1999
2. Yes, in 2000
3. No

3 Do you believe your business can withstand an economic slowdown or a recession?

1. Yes
2. No

Results of this poll will be published in the March issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636. To respond via the Internet, go to www.nbmag.com and click on "Poll."

4 How is your business being affected by economic crises in other nations? (Check all that apply.)

1. Exports are decreasing
2. More low-price imports are hurting sales
3. Sales to other U.S. exporting firms are declining
4. Obtaining financing is difficult
5. No impact

5 What are you doing to respond to economic conditions abroad? (Check all that apply.)

1. Lowering prices and making a smaller profit
2. Cutting operating costs
3. Reducing the work force
4. Scaling back production
5. Canceling planned expansion
6. Taking other measures
7. Nothing

November Poll Results

On Congress

The 1997-98 Congress got poor marks from *Nation's Business* readers in a recent poll. By wide margins, respondents to the Where I Stand poll in the November issue said the lawmakers didn't work hard enough on issues important to them, especially on reducing taxes and regulations.

Respondents also indicated that cutting taxes and overhauling the federal tax code were the most important pieces of business left unfinished when the lawmakers adjourned in November.

Here are the complete results of the poll:

How has your opinion of Congress changed in the past two years?

Higher regard	16%
Lower regard	60
No change	24

Did Congress make acceptable progress in reducing the federal tax burden on you and your business?

Yes	9%
No	91

Overall, do you think Congress acted in a way that will foster continued U.S. economic growth?

Yes	32%
No	68

Do you think the 1997-98 Congress worked hard enough on issues important to you and your company?

Yes	16%
No	84

Did Congress make acceptable progress in reducing federal regulatory requirements on your business?

Yes	9%
No	91

What is the most important piece of unfinished business that should be dealt with by the new Congress?

Tax reduction	36%	Medicare reform	2%
Tax-code reform	38	Health-care reforms	8
Social Security reform	11	Other	5

FRANCHISING

Fresh Ideas From Young Guns

By Dale D. Buss

Chance Miller and Jon Paul Martin used to get together over their favorite blended-fruit concoctions at the Smoothie King on the Tulane University campus in New Orleans when they were students, and they made a deal: They decided that if they didn't get fantastic jobs upon graduation, they would go into business together and open their own Smoothie King franchise.

After Martin graduated in 1993, he got a high-pressure, low-gratitude job as a stockbroker. A year later, Miller got his diploma and took an \$18,000-a-year position selling duplicating services to lawyers.

Before long, Smoothie King started looking pretty good to them, and soon they were scouting potential franchise sites around the University of South Florida in Tampa, Martin's hometown.

With borrowed funds from various sources, including a \$50,000 bank loan co-signed by their parents, Miller and Martin secured the more than \$130,000 they

needed to buy a turnkey franchise, and they opened their first Smoothie King in early 1995. It was store No. 59 for the New Orleans-based company, and it set the record for first-year gross revenues for Smoothie King franchises.

The following year, the pair opened another store 130 miles away on the University of Florida campus in Gainesville. Now, Mil-Mar Enterprises Inc. has five Smoothie King franchises in the two cities, and three of the stores are among the chain's top 5 percent in gross revenues.

Todd Leff took a different road to franchising. Ten years ago he began as a staff lawyer for what was then a moribund chain of automobile-repair franchises, Cottman Transmission Systems, Inc. Later he took over marketing, and in 1997 he became president.

A dynamic new generation of entrepreneurs who don't fit the traditional franchising mold is charting its way to success.

Leff has completely overhauled Cottman's internal and external business practices to improve its competitiveness. The Cottman chain, based in Fort Washington, Pa., now has more than 240 stores, up from 130 five years ago.

"We were a very operations-driven company, so we decided to become more of a market-driven company," says Leff, 39. "We were the best-kept secret in franchising."

Dara Craft's goal in launching Babies 'N' Bells Inc., based in Carrollton, Texas, was not to build a franchising concern. She started the business in 1997, after the birth of her second child, as a way to parlay her experience in commercial printing into an income-producing activity that would allow her to stay at home.

But Craft, 30, soon realized that other stay-at-home moms wanted the same op-

A few years out of college, Jon Martin, left, and Chance Miller quit their less-than-fantastic jobs for franchising. The first of their five Smoothie King stores set a company revenue record, and three are among Smoothie King's top producers.



Franchising

SPECIAL GUIDE

portunity to sell personalized birth announcements and party invitations, and she quickly adapted to franchising. She now has 29 franchisees, more than double the number she had a year earlier.

"My goal is to make them feel they're really part of something that's professional and just like a retail business," Craft says. "It just doesn't happen to be in a retail location."

Miller, Martin, Leff, Craft, and others among the growing crop of young players in franchising today are turning the field upside down.

Not long ago, the ranks of franchisees expanded to include many downsized middle managers. Now, franchising is attracting a dynamic new generation of entrepreneurs. They are young—many enter the field directly out of college. Increasingly, they are armed with MBAs. And they are largely unhindered by the traditional notion that people turn to franchising only after years of working in a conventional business.

The new-generation franchisees and franchisors—having seen middle-aged corporate refugees enter the field successfully after being turned out of good jobs—have concluded there was no reason to be down-

sized themselves before starting their own companies.

"This generation came away from that experience with the determination to become masters of their own destiny at an earlier point in life," says Don DeBolt, president of the International Franchise Association, a Washington, D.C.-based organization of franchisors, franchisees, and suppliers.

Along the way to charting their own successes, the younger generation of franchisees learned important lessons. Following are some of those operating principles:

Look for untapped market niches.

Just when you think that every kind of business has made the leap to franchising, remind yourself that it isn't true—and that plenty of unclaimed market niches remain for the taking with the right for-

mula, the right timing, and the right entrepreneur.

John Bersin, for example, was a recent graduate of Oral Roberts University in Tulsa, Okla., when he took a job about 10 years ago as a sales manager for a company that produced on-hold phone messages. Bersin nearly quadrupled the firm's sales within six months, he says, and he decided to pursue what he saw as the relatively untapped niche industry of on-hold marketing—giving phone-in customers advertising messages rather than silence or radio programming while they're waiting.

In 1991 Bersin left the company, created his own on-hold-marketing firm, and one day drove to St. Louis with a friend to work the first of a string of franchising trade shows.

They spent 31 days on the road and slept in their van, he says, but they came back with agreements from 10 prospective franchisees willing to pay \$20,000 apiece for territories. "It was the begin-

"I looked around and realized one day that we could even dominate this market niche."

—Michael Stimola,
Founder, Sandella's
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FRANCHISING

ning of our growth," says Bersin, now 32.

Bersin's company, Tulsa-based Impressions on Hold Inc., has 72 franchisees in 30 states; they provide on-hold messages for more than 3,000 clients. Systemwide sales exceed \$6 million a year.

Connecticut entrepreneur Michael Stimola found another sort of niche. Owner of a construction company at the time, he was on a bicycling trip in Maryland in 1993 when, he says, he got the idea to start a chain of Starbucks-style java houses in New York City.

Then, while traveling in California three years ago, Stimola tried a new kind of sandwich and was struck with a fateful idea—to build his company around that type of sandwich, called a wrap.

"We tried a few of our [sandwich] products as wraps, and we were selling out of them every day," says Stimola, 40. "Then we hired someone from a culinary institute and had the person focus on coming up with some wrapped-sandwich menu items. On a daily basis, we were offering 18 different wraps; they came out like a rocket and turned the [coffee-house] business around. And then I looked around and realized one day that we could even dominate this market niche."

"It's a very highly fragmented, undercapitalized group of people who are trying to make it grow. The market for outlets isn't hundreds, it's thousands; and no way was I going to be able to raise both the financial and human capital to get it done."

So Stimola blended the names of his wife, Sandra, and his mother, Ella Jane, to come up with Sandella's Wrap Cafe, and the Georgetown, Conn., company began franchising last summer.

Sandella's, which has a half-dozen stores in New York City, owns eight stores, is negotiating leases for or is under way on construction on 30 franchise units, and has commitments from future owners for more than 400 franchises. It costs about \$150,000 to open a turnkey Sandella's.

Be open to advice.

Entrepreneurs are often known for their vision, but some of the best also have pretty good listening skills. A decade ago, T.J. Suiter was running an Englewood, Colo., business that uses high-pressure equipment to wash exteriors of buildings. A friend suggested he could be more efficient and profitable if he bought a rig big enough to use on large office buildings.

Soon, the same informal adviser suggested to Suiter that he segue into the business of cleaning and inspecting municipal water and sewer pipes. That 1991 gambit was so successful that Suiter ended up spending a lot of time in cities all over the country working on their pipes—and away from his young family.

In another timely bit of intervention, three years ago Suiter was attending a Chamber of Commerce gathering in Englewood when he met a financial planner



PHOTO: GISEL DIMARCO JR.—BLACK STAR

By overhauling Cottman Transmission Systems, Todd Left, president, has improved the franchise company's competitiveness.

who asked about his goals. Two weeks later, on a tip from the planner, a franchising consultant called Suiter and convinced him that his business was primed to expand via franchising.

"I had had this thing in my mind that franchisors had these huge, corporate-type buildings and 20 or 30 executives sitting around a big table, so I didn't think there was any way I could really do it," says Suiter, 34. But the consultant changed Suiter's mind.

Hydro Physics Pipe Inspection Corp. was born two years ago, and now Suiter has four franchisees who have ponied up \$65,000 apiece to get under way. Suiter hopes to have 50 Hydro Physics franchisees by 2001.

Have an unassailable plan.

Successful young players in franchising, like those who prosper in any other industry, have discovered that the bedrock business behaviors are thinking, analyzing, planning, and preparing.

For example, Carlos Fluxa, who has an MBA, was a computer-maintenance engineer at IBM 10 years ago at a time when the giant computer company's fortunes were sagging. His wife was cutting children's hair in a popular Florida salon. Frustrated at work, Fluxa came up with the idea for franchised children's hair salons where the emphasis would be on fun.

"There were no major franchises targeting that industry, but there were hundreds of mom-and-pop places, so I came up with very little competition for my concept," says the 35-year-old Fluxa, owner of Kids Super Salon Franchise Inc., based in Lauderhill, Fla. A few months ago he sold his first franchise for the turnkey fee of about \$80,000.

Before he opened the doors of the first Kids Super Salon in 1994, Fluxa made sure that all his preparations worked toward his ultimate goal of national franchising.

For example, Fluxa's barbershop chairs, molded in animal shapes, come from a large South American company. "This way, if franchisees want to buy our chairs 10 years from now, I'm dealing with a big-enough company that I know we can ensure uniformity," he says.

Another of Fluxa's preparatory tactics was to open two stores in the Lauderhill area before trying to prospect for franchisees. "It's harder to sell a system with only one store," he says.

And Fluxa deliberately held off trying to sell franchises until almost a year ago because he wanted to fine-tune his business, making Kids Super Salon a better franchise opportunity.

"There are things that you learn along the way, things that I didn't know two years ago," he says. For example, Fluxa can offer potential franchisees a complete operations manual now, something he couldn't have done two years ago.

"We've improved a lot of things and put together complete guidelines that will be helpful for anyone who'll be running one of our franchises," he says. "In fact, with just the operations manual, you could pretty much run [a Kids Super Salon] without a background in cutting hair."

Be ready to adjust.

Sometimes, even great franchising ideas need to be adjusted in midstream to meet

Franchising

SPECIAL GUIDE

the particulars of a specific market.

The best companies can handle such changes on the fly. When Aniko and Peter Polgar, recent immigrants from Hungary, invested \$60,000 last March on a Wayne, N.J., franchise of The Maids International, the corporation's target market was households with dual incomes totaling at least \$50,000.

That is the base that the Polgars began to approach. But they soon realized that the buying power of \$50,000 varies throughout the United States, "and in our area, it won't take you far," says Aniko Polgar, 32, a former North American market manager for Malév, Hungary's national airline.

"Those people won't be our customers," Polgar says, "because they can't afford to have a cleaning service on a regular basis."

So the Polgars started aiming for customers earning at least \$75,000, and the tactic has worked.

That wasn't the end of the adjustments. While other franchisees of The Maids International typically advertise in local newspapers, the Polgars found that such ads missed their target customers, who either have no time to read or read *The New York Times* or other nationally circulated newspapers. For that reason, the Polgars



PHOTO: GUYTON R. FULTON JR.

A home-based business launched by Dara Craft blossomed into a franchise opportunity for other work-at-home mothers.

began to rely on direct-mail advertising.

Direct mail costs much more than newspaper ads and might require as many as a half-dozen attempts before it generates a potential customer's response, the Polgars say, but eventually it works.

Finally, the Polgars quickly learned to tailor their approach to customers' specific wishes. "Some don't want us to vacuum their blinds, but they'll ask to substitute some other service," Polgar says. "Or they'll ask [us] to clean the microwave instead of cleaning the windows above the sink."

"You have to find those sorts of things out. It takes extra time at the beginning, but ultimately it pays off."

In fact, the Polgars' revenues reached six figures within six months, setting a company record for a start-up.

The Polgars want to top \$1 million in sales during their first year, and they hope to establish additional The Maids International franchises.

Build franchising partnerships.

Much of the command structure from the top in franchising has been superseded by an emphasis on building relationships. Restaurateur Stimola tries to forge true partnerships with his Sandella's franchisees by becoming "totally committed to

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An Idea From Down Under

A small but growing number of successful franchising ideas in this country arrive here from abroad. So do foreign entrepreneurs who are committed to making their notions of successful business concepts take root in America.

Roger Hunt, for example, relocated to Chicago from Australia in 1995, and now the 33-year-old president and CEO of Cash Converters USA Inc. is convinced that American consumers are ready to accept something that's already a huge component of retailing in his native country: high-quality used merchandise.

Hunt already has 25 stores around the United States and is aiming for 200 by 2001.

Fellow Australians Tim and Tania Oldfield are among Hunt's first franchisees. They helped an Australian company called Country Fried Chicken spread its concept in the United States for several years before trekking to Virginia Beach, Va., to open a Cash Converters outlet several months ago. They plan to add a half-dozen of their own franchises and to help the parent company develop a total of 50 stores throughout Virginia.

Tim, 29, runs the merchandise-buying side, and 31-year-old Tania operates the resale part of the business.

How do you get Americans to take resale merchandise seriously when the



PHOTO: T. MICHAEL KEZA

A business concept from their native Australia—reselling high-quality used merchandise—is taking root in America with the help of franchisees Tania and Tim Oldfield.

image that immediately comes to mind is a broken-down thrift shop? Tim Oldfield says the key is to accept only high-quality products.

Cash Converters evaluates and tests every piece of merchandise before putting it on the sales floor, and it offers a 30-day money-back guarantee. "Normally, when they buy things at resale, customers are taking a risk, and that's something that most don't want to do," Oldfield says.

Oldfield also tries to buy carefully, especially because he's still learning what items are worth in the United States. On the other hand, "sometimes I'll buy something for \$5 that I can only sell for \$5," he says. "If that [seller] walks out of here happy, he may next time bring me an item I am looking for that I can sell for a lot more."

Cash Converters shrink-wraps together a resale item's components—board-game pieces, for instance—and makes them all visible so customers don't have to wonder if they're getting a complete product. Merchandise is highly departmentalized and otherwise organized for easy shopping.

"We also set up the atmosphere of a regular American store, with neon signs, music playing throughout the store, and so on," says Tania Oldfield. "When people come in, we want it to be a fun experience."

their success," he says. "We're spending lots of time and money in helping them find their real estate, building their stores, and providing them with fairly intensive initial training."

After that, Sandella's continues to oversee geographic territories directly rather than through development agents. "That's how we maintain these relationships and also maintain control over quality," Stimola says.

Michael Katzenberger, who was 18 when he launched his Maid to Perfection cleaning service in Baltimore in 1979, began franchising a decade ago. He knows that marketing support from the parent company is crucial to the success of his approximately 150 franchisees.

He's keenly interested in helping them market high-margin services such as customized cleaning of airports, military bases, and other large facilities.

"We just turned out for one of our franchisees a 100-page proposal that took us 60 hours to prepare, a potential \$1 million deal," says Katzenberger, who employs only six people at headquarters. His firm posts about \$1.5 million in annual revenues.

Stand your ground.

Building effective relationships with franchisees does not mean, however, that the franchisor has to accede to the franchisee's every demand.

Linda Kerr Kamm began franchising sales of her Fruitfull-brand frozen fruit bars in the early '90s. At the outset she decided she wanted a system that would encourage her franchisees to cooperate with one another. She wanted synergies that would build

up her business, Happy & Healthy Products Co., based in Boca Raton, Fla. "So, once someone is working on an account,"

she says, "no other franchisee can call on [that account]."

Kerr Kamm, 40, a former saleswoman for a competitor, founded her company in 1991 and now has more than 100 franchisees in 36 states.

"We don't want someone getting overly aggressive in a territory and circumventing other people," says Kerr Kamm. "You have to weed these types out in the interviewing process."

"If they ask things like, 'Can I buy out other franchisees?' or, 'How do I get exclusive rights to an entire state?'" she continues, "we have to look out for the little-guy franchisees as well as the big guys."

In fact, Kerr Kamm had to terminate one of her top franchisees, she says, because the franchisee was trying to take accounts from a much smaller franchisee nearby.

Rely on yourself if necessary.

Craig Shiple learned a lesson in self-reliance after purchasing the Broward County, Fla., franchise of HouseMaster Home Inspections 10 years ago. The former stockbroker took over a struggling franchise and began pumping his name

"You can take a very good business person and teach him to bake—but it's hard to take a good baker without [business] skills and teach him business."

—Dan Sterling, Breadsmith Inc.

Franchising

SPECIAL GUIDE

into the community "with some tremendous marketing tools," he says, but he wasn't getting any jobs.

Then, some months later, Shiple lost his receptionist, and he thought things would go from bad to worse. Answering the phones himself for a while, he discovered that they were ringing off the hook, and he began booking jobs almost immediately.

Shiple concluded that although potential clients had been calling the firm, they weren't being signed up as customers because the receptionist hadn't been trained to sell the service over the phone. He made sure his new receptionist was trained "in all the sales skills she needs," he says, and revenues have climbed to more than \$350,000 a year.

Surround yourself with good people.

No matter how hard it may be to find and retain talented, hard-working people for a business, picking the right business partners is a must for a franchisor. Dan Sterling, for example, believes that the success or failure of his bread-baking franchise company, Breadsmith Inc. in Whitefish Bay, Wis., ultimately depends on the quality of his franchisees. So he's extremely picky.

"We turn down many people who aren't a good fit," says Sterling, 42. He welcomes franchisees from all walks of life; among the owners of Breadsmith franchises are accountants, lawyers, and writers. But they must possess "proper business skills," says Sterling, "because you can take a very good business person and teach him to bake—but it's hard to take a good baker without those skills and teach him business."

Because retailing is demanding and time-consuming, Sterling also searches intently for franchisee prospects who demonstrate a good work ethic. "We look people right in the eyes and say, 'This is tremendous hard work, and it's physical, too.'"

"As an owner, if the mixer doesn't show up at 1 a.m. when he's supposed to, you're going to be doing it yourself, lifting 50-pound bags of flour and mixing the doughs for that day."

Cottman Transmissions' Leff decided that it was crucial for him to recruit mainly downsized, experienced executives as the

base of new franchisees who would jumpstart the company's growth. But he contracted outside experts to do the searching for him.

Leff has taken on the task of overcoming the initial fears of many new franchisees that basically they're going to be running a garage. "We have to overcome their stereotypes," he says.

For franchisees, staffing is critical to success and growth. Eric Miller has acquired six franchises of General Nutrition Centers in the Philadelphia area over the

signed territories are rotated among all franchisees.

E-mail is Craft's primary medium of communication with her franchise owners. "Technology is our business in the printing trade," she says. "So we absolutely have to be doing everything we can on the [Internet]."

Prospect for franchisees at trade shows.

Some staples of marketing still work as well as anything newfangled. Take trade shows, for example. Kerr Kamm got prospective franchisees interested by giving out free samples of Fruitfull bars at a show.

Emphasize service at every turn.

Ultimately, whatever the internal workings of their own relationships, franchisors and franchisees succeed only if they keep their eye on pleasing the customer. That's why Bob Holous, the Coverall North America franchisee in Louisville, Ky., routinely asks his commercial-cleaning customers how his staff is doing. He also regularly sends surveys to customers.

"If you wait for them to call you, you're much more likely to lose the account," says Holous, 38, a former salesman of electronics supplies.

Breadsmith's Sterling believes his franchisees and his products—which are baked on a stone

hearth, not in pans—are second to none in his business. But he says that focusing on customers helps him maintain his balance when he's tempted to try to grow faster than he should. His company has 60 franchisees.

The International Franchise Association's DeBolt notes that "with the growing number of early retirees who also are interested in franchising, the age of the average franchisee probably hasn't changed a heck of a lot."

But he is convinced that the under-40 generation of both franchisees and franchisors is the industry's cutting edge. "They're better educated than the prior generation," DeBolt says, "and more are familiar with strategy."

"They're just basically more knowledgeable about franchising's ability to be the most effective means of business expansion."



PHOTO: CRICK STILLER—BLACK STAR

Answering the call to tap into a niche industry, John Bersin founded a franchise company that creates customized telephone messages for businesses to play to customers who are put on hold.

past six years and plans to take on four more. He relies on each store's management staff to run its own operation.

"I just give them a chance to run the store relying on their own creativity and energies," says Miller, 31, whose company, Vitamanagement Inc., is based in Maple Glen, Pa. "Their sales volumes tell me they're doing the right things."

Tap in to the Internet.

Some young stars of the franchising business are leveraging their comfort with cyberspace into quick success. For example, Craft of Babies 'N Bells has poured a lot of resources into her company's World Wide Web site, www.babiesnbells.com, and it has become her most crucial marketing weapon.

Online orders are routed to the franchisee serving the territory that includes the customer's address. Orders from unas-

Family Business

A checklist of resolutions for the new year and beyond; considering family members for the board.

OBSERVATIONS

Promises Worth Keeping

By Sharon Nelton

Make all the vows you want about losing weight or quitting smoking. But consider too some other promises that might be worth your while for 1999 and beyond. Here are New Year's resolutions that family-business experts told us they would suggest for business-owning families:

■ "Resolve to take the time to share the history of the business with the whole family," says Karen L. Vinton, a professor of management at Montana State University in Bozeman. She underscores the importance of capturing the stories—perhaps on tape—while the people who lived them are still here. "Then you have a legacy to pass on to future generations."

■ "Promise that the business will become a learning family business, as in 'learning organization,'" urges Jane Hilburt-Davis, a family-business consultant in Lexington, Mass. The first step, she says, is to create a document that reflects the family's shared values and its direction. Follow that with family-council meetings that will put the document into action.

■ Peter Baudoin, a CPA and family-business consultant in Lafayette, La., says: "I would love to hear that family businesses have resolved to be continuously in awe of the influence they have over the lives of family members, employees, customers, vendors, their communities, and—collectively—the world."

■ Leonard R. Geiser, director of the Goshen College Family Business Program in Goshen, Ind., asks families to resolve to hold at least one family meeting, with all family members, "to discuss the family's dreams and goals for their future involvement in the family business; review the status of the business and how it might or might not serve family members in the future; and review the estate planning of the senior generation."

■ "Say 'thank you' each day to one member of your family (or an employee) for a specific contribution he or she is making to the success of the business," is the resolution suggested by Henry D. Landes, president of the Delaware Valley Family Business Center in Sellersville,

Pa. By doing this, he says, you engage in the "practice of gratitude."

■ "To spend time with each of my adult children, one to one, doing something we like together, regularly," is a resolution that Dennis T. Jaffe, a family-business consultant in San Francisco, would like to see business owners adopt. And heirs? "To keep in touch and spend time with each of my parents, one to one, regularly."

■ "I resolve this year to create a forum for dialogue," begins the resolution offered by Leslie Dashew, president of the Human Side of Enterprise, an Atlanta family-business consulting firm. She suggests enabling family members to gather together to explore what it means to be a family. Dashew's resolution concludes: "I resolve to be available to all members of the family, to listen, to explore perspectives, and to nurture the most important resource we have: our family relationships."

If you adopt resolutions that are anything like these, you're going to find the final year of the '90s extremely challenging but tremendously rewarding. ■



PLANNING

When Can Family Members Serve On The Board?

By Craig E. Aronoff and Joseph H. Astrachan

You've probably heard that you should have an active board of directors with excellent outside directors. Insiders, you've been told, include family members and nonfamily key employees, and they should be kept to a minimum.

However, what is doable and what is desirable don't always match. And in some situations, a larger, more inclusive board makes great sense.

What does not make sense is to have family fights over who gets to sit on the family-business board. Building strong, useful boards while avoiding family conflict is what it's all about. And based on our experience in working with family

businesses, we can tell you which family members to put on the board.

Two Different Outcomes

But first, let's get down to cases—two examples from companies with which we have worked. One is a large family business with participants from three generations. It had a long-standing policy that after 10 years of employment, family members became eligible to serve on the board. The board grew and grew as more than a dozen family members met the criteria.

The 13th, however, was unlucky. A grating personality cost him the support of the majority of board members, and he was not



PHOTO: GALLISON SHERIFFS

Craig E. Aronoff, left, and Joseph H. Astrachan teach at Kennesaw State University in Kennesaw, Ga. Aronoff holds the Dinos Chair of Private Enterprise; Astrachan holds the Wachovia Chair of Family Business. Copyright © by the Family Business Consulting Group, Inc.

elected to serve. His defenders maintained that he was "no worse than some of the others on the board." Soon the arguments escalated. Ultimately, the conflict over membership led to the sale of the business.

The other company, which was nearing its 100th anniversary, had a policy of electing two directors from each of eight family branches. The policy had been established two generations earlier, when there were only two family branches. Each branch got to choose who would represent it.

The board increasingly became an arena for much family drama, with branch pitted against branch.

This case had a happy ending, however, when the board was restructured to seven members, including—for the first time—outsiders.

Branch representation was specifically eliminated as a criterion of board membership.

Not surprisingly, family conflict was cut in half.

Reasons For Taking Action

Choosing board members from family is difficult at best. Some bad yet frequently used reasons for electing family members to the board:

- To reward or punish. "She's been a good, loyal family member—let's reward her with a board seat."

- To avoid conflict. "Gee, if we don't put Phil on the board, there's going to be trouble with Aunt Pat."

- To avoid hurt feelings. "Ann will be so upset if we don't put her on the board."

- To demonstrate loyalty or love. "Eddie won't hurt anything by being on the board, and he may feel we love him less if we don't give him a seat."

- Because it has always been done that way. "Mother has a board seat, and I should have it when she's through."

We recommend that very clear policies be developed concerning board membership and that they be communicated to all who might consider themselves candidates for the board. We suggest that when you are considering whether family members should be on a board, you should think in terms of family reasons and business reasons.

Business reasons for board inclusion

are straightforward. If family members have relevant business experience or expertise, or if they demonstrate superior strategic or analytical thinking and business knowledge, they may be considered as directors.

Remember, the purpose of the board is to hold top management accountable, help the business plot its course through strategic planning, and serve as a sounding board on difficult challenges confronting the firm.

The best family reason for board inclusion is that a particular family member enjoys a high level of trust by the whole family. Such trust will build confidence and encourage the family to stand behind the company.

If a family member controls a significant block of stock, he or she might be considered. Indeed, when a business is held equally by three or four second-generation siblings, they might all sit on the board—as long as they don't set a precedent for branch representation. That can be dangerous because branch interests can be seen as more important than the interests of the whole.

On the other hand, a family member who is able to capture and articulate the goals and vision of the family as a whole might be considered.

Grasping Family Goals

The best family-business boards focus on accountability, strategy, and helping the CEO grapple with tough, thorny issues. As a family grows and stock is spread among more family owners, having more family members on a board along with a substantial number of solid outsiders often makes sense.

Shareholder relations becomes a more important issue for the board. A family voice or two in addition to the chairman's and CEO's may help the board to better grasp the family's goals and perspectives. Including a broadly and deeply respected family member may provide a way for catalyzing trust in a fractious family.

As long as family members don't take up precious board slots that should go to others and are capable of making real contributions, it's more than fine to have family members on your board of directors.



ILLUSTRATION: TROY THOMAS

MARK YOUR CALENDAR



Jan. 15, New Brunswick, N.J.

"Sibling and Cousin Leadership Across Five Generations in a Family Business" is a discussion to be led by a family-business CEO. Call David Niemeyer, director of the Rutgers University Family Business Forum; (732) 445-7504, Ext. 21.

Jan. 21, Richmond, Va.

"What Every Family Business Needs to Know About Consumer Behavior" is a daylong program. For more information, call Betty Snapp of the Virginia Family Business Forum; (804) 828-7288.

Jan. 25-27, Cambridge, Mass.

"Using the Systems Approach: A Special Program for Family Business Advisers" is an intensive, two-part, six-day seminar that concludes May 19-21. Call the Cambridge Center for Creative Enterprise; 1-800-531-5755.

Jan. 26, Durham, N.H.

"Planning for Effective Communication" is an offering of the Center for Family Business at the University of New Hampshire. Call Barbara Draper; (603) 862-1107.

Jan. 27, Wilmington, Del.

"Perpetuating the Family Business—The Ultimate Management Challenge" is a daylong seminar with John L. Ward, a leading family-business consultant and author, as a featured speaker. Call James O'Neill, executive director of the University of Delaware Family Business Center; (302) 831-2559.

Feb. 4, Westport, Conn.

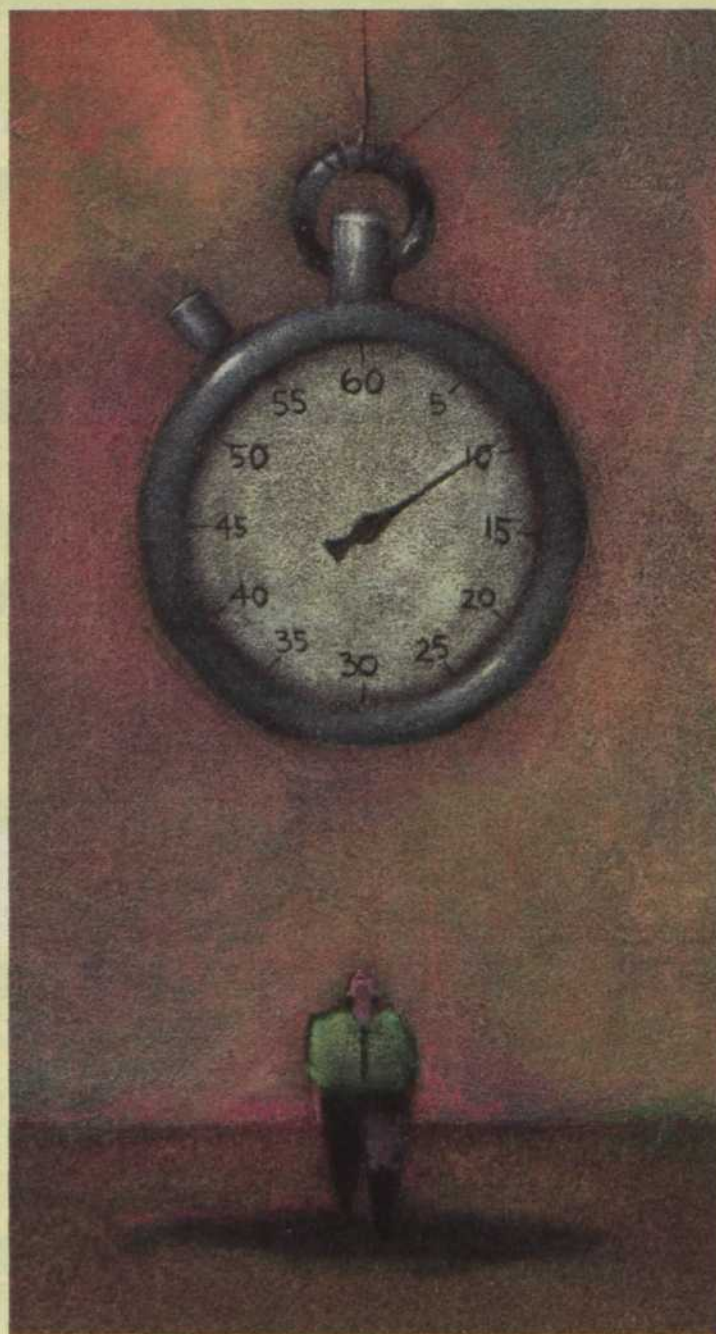
"Marketing Yourself as a Family Business" is a morning seminar offered by the University of New Haven. To be repeated in the evening in Meriden, Conn. Call (203) 932-7421.

March 18-21, Tucson, Ariz.

"Leading in Our Own Way" is the theme of the third Women in Family Business Retreat offered by the Human Side of Enterprise, an Atlanta-based family-business consulting firm. Call (404) 252-7113.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.



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By Michael Barrier

Of Doughnuts And Doggie Bags

The holiday season always brings with it—among many other things, of course—a new edition of the slim, red *Zagat Survey* guide to New York City restaurants, the flagship publication of a company that has now all but blanketed the country with similar guides. (Part of the South is the only large area that is Zagat-less).

Zagat guides for London and Paris are also published, and one for Tokyo is in the works.

What sets these directories apart from most restaurant guides is that their ratings are based on the opinions of actual restaurant customers—currently around 100,000 of them—who fill out survey questionnaires.

Tim Zagat (pronounced zuh-GAT) and his wife, Nina, who co-founded Zagat Survey, have just published the 20th-anniversary edition of their New York City guide, and it seemed an opportune time to ask Tim some questions about the guides and their sometimes quirky rankings.

A Time Warner-run World Wide Web site that is a guide to Kansas City, Mo., for instance, includes the Zagat listing for the top-rated restaurants there. (Zagat Survey licenses pieces of its data not just to Time Warner but also to other firms with Internet sites.) The

restaurant with the highest food ranking—28 out of a possible 30—is a five-store chain called Lamar's Donuts. That's not a tongue-in-cheek name, either; doughnuts are the stock in trade at Lamar's.

A more conventional guide might feel compelled to

where, for example, Soup Kitchen International—the place that was the model for the “Soup Nazi” in the famous “Seinfeld” episode—gets as high a rating for its food (26) as the revered French restaurant Le Cirque 2000.

“I don't think anybody, looking at the ‘Soup Nazi’s’ 26 for food, has trouble knowing that that is a totally different experience than Le Cirque,” Zagat says. “It just happens to be the best soup in the world.”

in downtown New Orleans, where, Zagat says, “business people line up for lunch” along with police officers and prostitutes.

Zagat Survey's steadfast loyalty to local preferences has been amply rewarded, especially in New York City, where the annual guide sells more than 600,000 copies (list price: \$11.95). All the guides are making money, Zagat says, but the real potential for profit lies in the ways that the guides' data can be recycled, particularly on the Internet.

“We're a completely computerized product,” he says, “which lends itself to an electronic platform. We're gradually putting more effort into our own Web site” (www.zagat.com), to the point that it will be “dramatically different by February. We're going to put on huge amounts of data.”

Many companies that offer data over the Internet have had a hard time making money doing it, but so far, Zagat says, the Web is turning out to be a great way to sell books, which are easier to stick in your coat pocket than most computers.

The guides are salted with customers' comments on each restaurant, taken from the questionnaires, and Zagat laments that some of the best remarks are either libelous or funny but unfair. Among them:

■ “This restaurant suffers from delusions of adequacy.”

■ “Save on fuel bills—the heartburn will keep you warm all winter.”

■ “I took home a doggie bag; my dog refused it.”



put Lamar's in a separate category or otherwise flag it, but the Zagats resist any temptation to tinker with the data their surveyors provide. Tim doubts anyone will be confused. “Most people know the difference between a doughnut shop and a regular restaurant,” he says. Besides, those doughnuts are terrific: “I used to buy boxes of Lamar's doughnuts to bring back to New York.”

Such seeming anomalies crop up even in New York City,

Such engaging oddities turn up elsewhere in the guides, beyond the descriptions of the restaurants. Most of the books list restaurants suitable for “business dining”—based on readers' comments and local editors' evaluations—and, as Zagat says, “unexpected places” wind up being favorites.

There's the California Pizza Kitchen in the middle of the Mirage Hotel's casino in Las Vegas, for instance. And there's the funky place called Mother's



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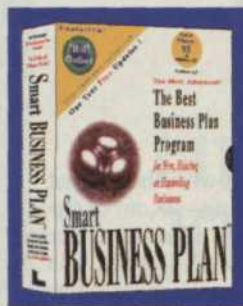


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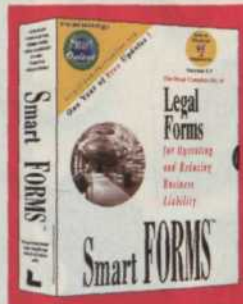


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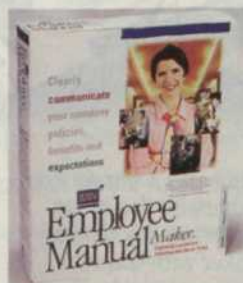


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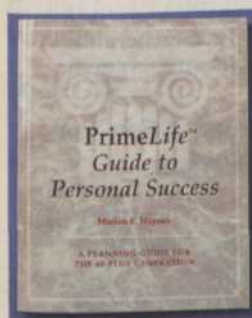


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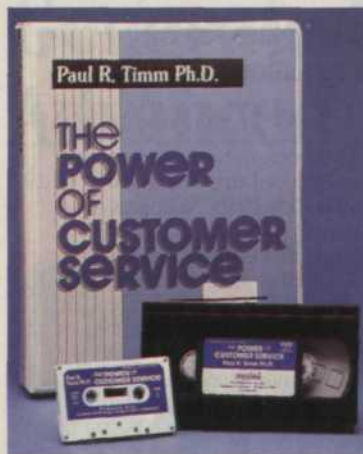


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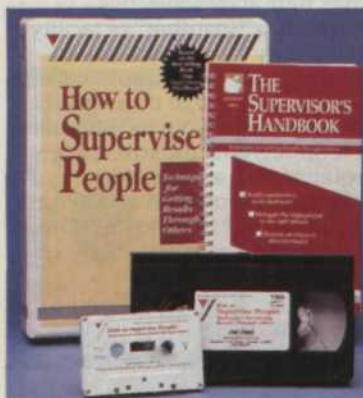
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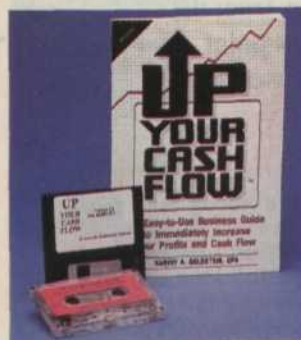
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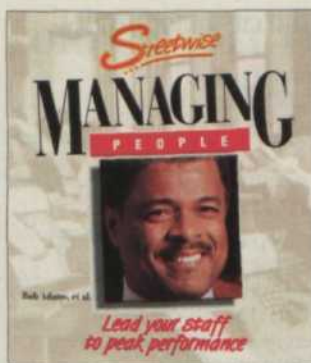


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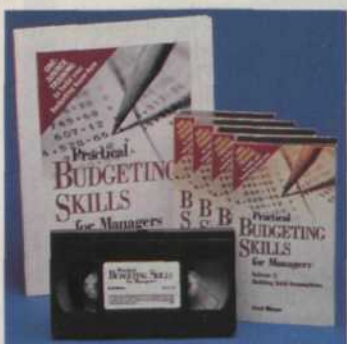
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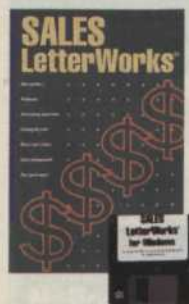
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Back To The Future

By Jennifer Harrison

As a teenager, Jeff McCarty wanted to create the ultimate high-school memory book. He saved the usual photos and trinkets, but he also threw T-shirts, cups from fast-food restaurants, and other three-dimensional objects into a cardboard "memory box." After high school, he started adding relics from his birth year to the collection.

Although McCarty, now 33, never got around to making a high-school memory book, he "had a box full of cool stuff," he says.

His collection of memorabilia prompted a question: Why couldn't people make their own time capsules of important events such as births, weddings, and graduations? The answer became his life's work.

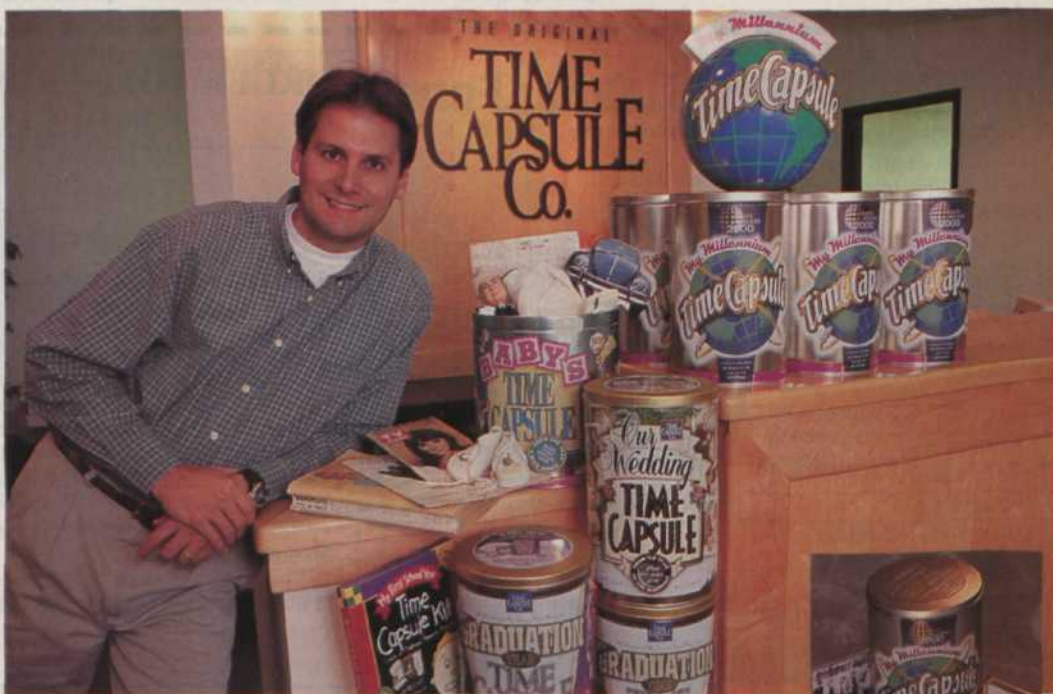
After graduating from Herron School of Art in Indianapolis, McCarty took a job as a graphic artist. Eighteen months later, at age 24, he quit his job and began developing his brainchild, personal time capsules. To support himself and create seed capital, he continued to work as a free-lance graphic artist.

His first product was Baby's Time Capsule, a colorful tin filled with supplies such as a scrapbook, stationery for letters to the future to be written by parents and grandparents, instructions, and stickers to seal the capsule and designate a date for opening it.

Mark Lee, a young restaurateur and a graphic-arts client of McCarty's, saw a prototype of the time capsule in McCarty's office. Lee became enamored of the project

and offered to invest \$20,000 in the business. In the years to come, Lee dished up \$40,000 in venture capital and McCarty ran up \$90,000 in credit-card debt to fan the fledgling firm to life.

n't get it," McCarty says. He took the capsule to a consumer retailing show in Cincinnati, talked to hundreds of new and expectant parents, and sold only 37 units. Months later he exhibited at a hospital trade show, and the time capsule generated brisk sales as a gift to be sent home with new mothers. Marketing directly to the consumer, McCarty realized, had been the wrong strategy. He and Lee began to focus on trade shows and retailers instead.



PHOTOS: CHARLIE NYE—LIAISON AGENCY

The days of your lives can be captured for posterity using the time capsules—including the new My Millennium Time Capsule, right—developed by entrepreneur Jeff McCarty.

The Original Time Capsule Co., based in Greenfield, Ind., introduced Baby's Time Capsule in March 1992 and sold only 1,800 units that year. In contrast, 1998 sales of the company's various time capsules are expected to reach 250,000 units, with revenues of \$2 million.

But success came only after the company surmounted a number of obstacles. At first, for example, the product was hard to explain to consumers. When it was finally ready to be shipped, people "just did-

In 1993, after McCarty attended the Chicago Gift Show, sales jumped tenfold to more than 20,000 units, and revenues reached \$225,000. The number of retail outlets carrying the time capsule climbed to 1,000 from 60.

Lee was managing five restaurants, so his involvement in the time-capsule enterprise was limited at first. He has since sold three of the restaurants, and he now devotes about 80 percent of his working hours

Jennifer Harrison is a free-lance writer in Indianapolis.

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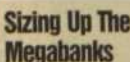
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MAKING IT

to running the business with McCarty.

They recruit independent sales agents at gift shows and through trade magazines. In 1995 they built a 15,000-square-foot warehouse and office facility. Their work force now numbers 14.

A Wedding Time Capsule was intro-

duced in 1995, and overall sales that year almost doubled to just under \$1 million on 92,000 units.

Newer products, which retail from about \$10 to \$22, include My Graduation Time Capsule and My First School Year Time Capsule. The company recently entered

into a joint venture with Times Square 2000 (producer of the New Year's celebration in Times Square), which will sell a My Millennium Time Capsule.

McCarty's vision of the past has made him a millionaire before age 40. And he likes creating his own future just fine. ■

A Juicy Line Of Work

By Minda Zetlin

In 1992, Doug Levin, then 31, was in the throes of an early midlife crisis. He had abandoned New York City and the advertising industry for a simpler life in rural Maine and a job delivering alfalfa sprouts for his mother-in-law's home-grown-sprout business.

But after two years, he says, he did some soul-searching. "I got very panicked about my future." He decided to become a photojournalist, so, after talking it over with his family, he sank his savings into a top-of-the-line camera and headed out to take pictures across the country.

"Terrible pictures," he says now.

Dejected, Levin returned to Maine and, in a Portland supermarket, had what he calls his "carrot-juice epiphany."

"I turned a corner in the produce department and saw a cooler with this little 8-ounce bottle of carrot juice," he recalls. "It was the most brilliant orange I had ever seen." Drinking it was even better, he says.

Levin went back to his parents-in-law. "I know you think I'm just a hopeless wanderer," he told them. "But [fresh juice] is going to be big, I know it." So when 24 Carrot Juices, the tiny company that made the carrot juice, was put up for sale a few months later, his relatives cashed in a life-insurance policy to help him buy it.

Outfitted with a 1975 Volvo, two coolers, and a new company name—Fresh Samantha, after Levin's daughter—Levin took his fresh-squeezed juice on the road. The juice got a lukewarm reception, however, because he was selling it in Maine, where the tradition of frugality and the long winters (juice is more popular in warm weather) made consumers reluctant to spend \$2.75 on a bottle of fresh-squeezed gourmet juice.

He went to Boston, where consumers were eager for fresh juice. Sales soared.

Levin soon began offering fresh-squeezed orange juice as well. One day it occurred to him to combine his two juices,

creating a juice he dubbed Carrot Orange.

Next came Banana Strawberry Smoothie, Raspberry Dream, and Mango Mama. Then, in response to customer requests, Levin introduced "nutritionals" such as Desperately Seeking C, which has a healthy dollop of vitamin C, and Super Juice, which contains echinacea, an herb believed to be a cold remedy.

Brightly decorated bottle labels advise drinkers to "shake it up, baby" and feature a drawing of a small girl holding fruit. The

his 38th birthday. He told his employees that if the target is met, he will take them and their spouses—about 400 people—on a cruise to Nova Scotia. He seems confident: He has already arranged for the ship.

Levin gets a lot of help in running Fresh Samantha from members of his wife's family, especially Michael Carter, his brother-in-law and the firm's president. A former physicist and engineer, Carter left a marine-engineering job to join his mother's sprout business, and he built the sprout-growing facility where Levin started squeezing carrot juice. Carter's engineering expertise is a big help in managing Fresh Samantha's complex juice-processing machinery, Levin says.

One secret to the company's rapid growth, says Levin, is that it distributes its juices in its own trucks. This is an uncommon—and expensive—choice in the juice industry. But Levin says handling distribution allows his firm to add accounts quickly. Often, all that's needed to sign a new account is for a driver to walk into a store and offer a taste of juice.

For now, Fresh Samantha is a regional product, sold in East Coast cities and a few college towns as far south as the Washington, D.C., area. Levin says that he plans to go national eventually.

Selling fresh juice is not without risks. In 1996 the industry was rocked when an outbreak of E. coli in the West was linked to a California maker's unpasteurized apple juice. Subsequently, Fresh Samantha, already operating under stringent safety procedures, commissioned a Cornell University

study on how to eliminate germs without affecting juices' taste or nutritiousness.

As a result, the company now uses "flash" pasteurization, in which juices are heated to lower temperatures and for less time than in traditional pasteurization. "Flash pasteurization doesn't affect taste," says Levin, but "it really provides a backup on the safety issue. And the nutritional component is only minimally affected." ■



PHOTO: CPHL SCALA—MERCURY PICTURES

A close encounter with a bottle of carrot juice gave Doug Levin, left, a taste for starting a fresh-juice company; with Levin, the firm's CEO, is Michael Carter, president.

drawing was created by Levin's wife, Abby Carter Levin, a graphic designer.

Fresh Samantha took off, posting sales of \$300,000 its first full year, 1994. Since then revenues have shot up quickly, reaching \$15 million in 1998. The company now has a two-building plant in Saco, Maine, a Portland suburb.

Levin, the firm's CEO, is aiming for \$38 million in annual sales by May 26, 1999,

Minda Zetlin is a free-lance writer in Woodstock, N.Y., and the author of *Surviving the Computer Time Bomb: How to Prepare for and Recover From the Y2K Explosion*, to be published by AMACOM in January.

Going For The Records

By Nancy Bearden Henderson

Carolyn Jones' desire to run her own business was born when, as a spunky, pigtailed girl growing up in public housing, she collected fares from customers who rode in her dad's taxicab.

"I thought it was so interesting that he could work independently and call his own shots," she recalls. "To me, that looked very exciting."

The Chattanooga, Tenn., native earned a business-education degree in the mid-1960s, but her entrepreneurial dream was still years in the making.

Newly married, Jones and her husband moved to Detroit, where she worked as secretary to the vice president of Motown Records.

The regular contact with entertainers such as Smokey Robinson, Diana Ross, and the Temptations was thrilling, but when the company was relocated to Los Angeles in 1970, Jones decided to stay in Detroit.

Accepting a job as medical-records supervisor at Detroit's Children's Hospital proved to be the turning point in her career. "I didn't have any earthly idea what 'medical records' was," she says. But she quickly developed a passion for helping patients "without the blood and all that stuff."

Jones outlined a plan to start her own medical-records business by 1980, earned a two-year accredited record technician degree, then enrolled in a four-year registered record administrator (RRA) program. Her marriage had crumbled, and in 1974 she moved back to Chattanooga to be near her aging parents, only to find that the closest medical-records program was two hours away, in Atlanta.

Unwilling to give up her goal, she commuted to Emory University and finished her RRA degree. Then she talked the president of a junior college in Chattanooga into letting her start a medical-records program, and later she established curric-

ula at several historically black colleges in the Southeast.

As part of her 10-year plan, Jones worked at various times at an acute-care hospital, a health-maintenance organization, and an ambulatory-care center, learning the record-keeping regulations for each type of facility. She also began wooing clients.

In November 1980, Jones remarried, obtained a bank loan of \$5,000 for supplies and equipment, turned a bedroom into a home office, and launched C.J. Health Records. A week later she landed her first contract, handling medical records for 17 nursing homes.

The impressive first contract was largely a result of the fact that Jones was

With the addition of a secretary, Jones had "run out of walls" for more desks in the home office, so in 1985 C.J. Health Records leased office space and won a \$250,000 contract managing classified documents for the U.S. Department of Energy.

In 1993, in response to a growing non-medical clientele throughout the United States, Jones changed the name of her venture to C.J. Enterprises Inc.

Jones' firm has more than 100 full-time employees and 30 part-time workers and consultants. It offers clients a wide range of services, such as helping doctors negotiate contracts with managed-care organizations and setting up efficient accounts-payable systems. The company's annual revenues have topped \$4 million.

C.J. Enterprises has received nearly 20 awards from the U.S. Small Business Administration, the National Association of Women Business Owners, and other organizations.

The professional recognition that Jones is proudest of, however, is the 1998 Chattanooga Area Manager of the Year, which she received this past summer. She is the first black and the first woman to be given the award since it was established 13 years ago. It is sponsored by 17 agencies in her hometown.

Jones says there are three keys to her success: taking a personal approach, treating employees and customers fairly, and—most important, she says—allowing God to be "Chairman of the Board."

Jones believes in sharing the wealth with her staff through benefits such as tuition reimbursement and paid-in-full health insurance.

"We try to add one new benefit to their packages every year," she says. In 1997, CJE introduced an alternative work schedule; employees now have a paid day off every other Friday so they can enjoy longer weekends.

In addition, Jones is a mentor for other minority women business owners, leads university workshops for female entrepreneurs, and fields up to 10 calls a week from women hoping to start their own businesses.

"[General Motors] is still making cars, and Ford and everybody else is, too," she says, laughing. "There's enough business out here for everybody."

"I think that if you give, it will be given unto you."



PHOTO: STEPHEN ALVAREZ

A longtime interest in owning her own business prompted Carolyn Jones to move from Motown Records to medical records; she's now president of document-management firm C.J. Enterprises Inc.

a full-time medical-records specialist who could also serve as a consultant. As business grew, her husband, Edward Jones, and son Charles Kimbrough Jr. joined the company.

The road to success was often bumpy, however. Jones discovered, for example, that being a woman entrepreneur meant that some potential clients didn't respect her ideas. "But I don't accept obstacles," she says.

Jones decided that every five years she would diversify. "My philosophy is that if you make hamburgers, you ought to make spaghetti, because you'll always have a piece of hamburger left over. So we expanded into records management for the government."

Nancy Bearden Henderson is a Chattanooga, Tenn., free-lance writer who frequently profiles small-business owners.

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Editorial

Change—And Stability—On Capitol Hill

As the 106th Congress prepares to convene, it is a source of both reassurance and concern regarding policies and trends that affect business.

The reassurance stems from the fact that for the third successive Congress, both houses and their committees will be controlled by Republican majorities committed to policies that foster economic growth.

And, despite the turmoil surrounding the change in leadership in the House of Representatives, there has been no diminution of the strong, collective commitment of the new team at the top to business-supported goals of limiting the role of government.

In the new House, Bob Livingston of Louisiana will be speaker; Dick Armey and Tom DeLay, both of Texas, will retain their positions as majority leader and whip, respectively; and J.C. Watts of Oklahoma will be Republican Conference chairman.

Business people should note that both the old and the new House leadership teams had a cumulative average record of voting for the business position on major issues 93 percent of the time through 1997, according to the U.S. Chamber of Commerce.

The two changes at the top of the House hierarchy are thus an affirmation by the House Republican rank and file of the conservative principles that gained the party majority standing.

In the Senate, where the GOP majority is unchanged at 55-45, Republican members retained their leadership team headed by Majority Leader Trent Lott of Mississippi.

Speaker-designate Livingston set the tone for his new position in a speech in which he declared that his party's basic philosophy is geared to "valuing independence and human dreams, and knowing that if government gets too big or takes too much of the family income, that those dreams begin to fade, and freedom dwindles."

Business, equally opposed to policies under which "government gets too big or takes too much," will be looking to the new Congress for support on issues such as maintaining a balanced budget, tax relief, easing of regulations that stifle economic growth, and other steps to curb the power and reach of Washington.

The extent to which the Republican majority can prevail on those issues, as it frequently has in the past, is the source of business's concern about the 106th Congress. In the off-year elections, the GOP majority in the House fell from 228-207 to 223-212 (the minority includes an independent who tends to vote with the Democrats). The new lineup means that a shift of only six votes could deny Republicans a majority on any given issue.

Bruce Josten, the U.S. Chamber's executive vice president for government affairs, says that with numbers that close, Livingston "will have to reach across party lines to try to forge a bipartisan approach for his legislative program." Josten adds, however, that Minority Leader Richard Gephardt of Missouri will face chal-

lenges similar to Livingston's in attempting to manage various blocs with conflicting viewpoints.

Pro-growth members of Congress, the business community, and everyone committed to limited government and economic freedom will have to work harder, Josten says, to achieve their legislative goals in the House over the next two years.

While the task is strategically far more formidable, nothing has happened in terms of congressional control or leadership changes to make it unreachable.

"If government gets too big or takes too much of the family income, ... dreams begin to fade, and freedom dwindles."

—House Speaker-designate
Bob Livingston

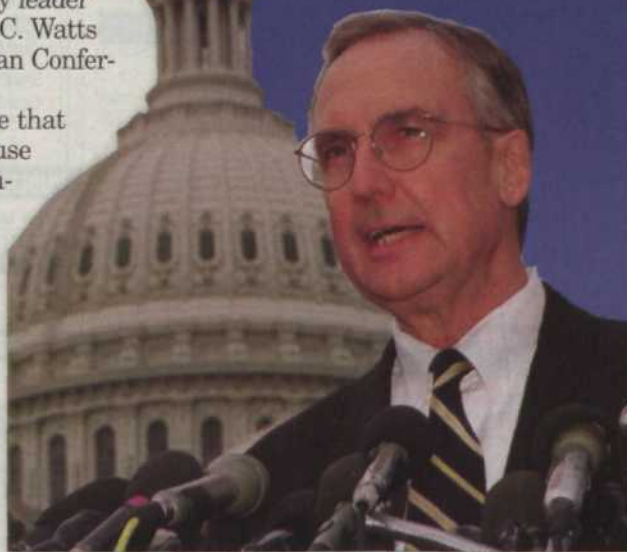


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